

PREM 19/1411

21

PAGE ONE

C
Confidential File

A 320 - EUROPEAN AIRBUS.

AEROSPACE

Part 1 March 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4-8-82		5-1-84		27-3-85			
11-10-82		11-1-84		18-4-85			
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		10-12-84					

PREM 19/1411

ENDS

PART 1 ends:-

Pm to Kohl 24.6.85 (T119/85)

PART 2 begins:-

PS/SSDTI to CDP 18.3.86



ECH

cc: FCO

"T"

10 DOWNING STREET

THE PRIME MINISTER

24 June 1985

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T119/85

cc MASTER
OPS

My dear Chancellor,

Thank you for your message, received earlier this month, about the European Transonic Wind Tunnel. As you say, the project is one of great importance to the future of the aerospace industry.

I am very glad that at a meeting of the Wind Tunnel partner governments in Bonn on 14 June our national representatives were able to confirm Britain's full participation. I welcome this further evidence of a developing collaborative relationship in science and technology which I hope we can extend into other fields, and I look forward to our two countries working closely together on this project.

Yours sincerely
Margaret Thatcher

His Excellency Herr Dr. Helmut Kohl

DSG

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

20 June 1985

Dear Charles,

European Transonic Wind Tunnel

Thank you for your letter of 7 June enclosing one from Chancellor Kohl to the Prime Minister about the European Transonic Wind Tunnel (ETW). Agreement between the Ministry of Defence and the Department of Trade and Industry on the means of financing the United Kingdom's contribution to ETW capital costs was reached last week, following a meeting chaired by the Foreign Secretary (your letter of 1 June). The Germans and the other ETW partners (France and the Netherlands) were told of this decision at a meeting of national representatives on 14 June. This made it possible to reach agreement on the text of the Memorandum of Understanding on the final design phase.

The enclosed draft reply to the Chancellor has been cleared with DTI officials. It refers to our hope for a developing relationship in science and technology. We are trying to obtain German (and other European) support for a UK scientific facility, the Spallation Neutron Source, now near to being commissioned. An oblique reference to the fact that the Germans are not alone in seeking collaboration in the science and technology field would be helpful.

I am copying this letter to John Mogg (DTI), Richard Mottram (MOD), Richard Broadbent (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

*Yours ever,
Colin Budd*

(C R Budd)
Private Secretary

C D Powell Esq
10 Downing Street

RESTRICTED

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1+

FROM:
Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Chancellor Kohl

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your message, received earlier this month, about the European Transonic Wind Tunnel. As you say, the project is one of great importance to the future of the aerospace industry.

CAVEAT.....

I am very glad that at a meeting of the Wind Tunnel partner governments in Bonn on 14 June our national representatives were able to confirm Britain's full participation. I welcome this further evidence of a developing collaborative relationship in science and technology which I hope we can extend ~~yet further~~ into other fields, and I look forward to our ^{two countries} working closely together on this project.

Enclosures—flag(s).....

PK



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

NSM
CDP
2/6.

20 June 1985

Norman Tebbit

EUROPEAN TRANSONIC WINDTUNNEL (ETW)

Thank you for copying to me your letter of 13 June recording agreement with Michael Heseltine that the defence budget will meet half the annual costs of continued UK participation in the ETW.

You suggest that we should now drop the possibility of seeking contributions from industry. I am content to do so only on the understanding that the UK contribution to ETW funding is accommodated within existing PES provisions. If you proceed on this basis, I share your view that our partners should now be asked to remove all references to Government funding of future operating losses. Once constructed, the ETW should be subject to a fully commercial operating regime.

Copies of this letter go to the Prime Minister, Sir Geoffrey Howe, Michael Heseltine and Sir Robin Nicholson.

Norman Tebbit *Peter Rees*

PETER REES

SKW

file

13 June 1985

The Prime Minister has seen your letter of 10 June and was grateful to you for setting out the background to British Caledonian's decision to sell its Airbus A310 aircraft. She has noted your comments about the performance of these planes.

(ANDREW TURNBULL)

Sir Adam Thomson, C.B.E.

SS

CCPC



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

Secretary of State for Trade and Industry

13 June 1985

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

AT - it worked!

CDP
13/6.

Fdu

D Michael,

EUROPEAN TRANSONIC WINDTUNNEL (ETW)

I am most grateful to you for your most helpful agreement at our meeting yesterday under Geoffrey Howe's chairmanship to split the future UK share of this project with my Department.

2 When my officials meet with our partners in Bonn on Friday they will say that we have found a way to meet our national share of 28 per cent of the total cost by means of equal contributions from your Department and mine.

3 I am assuming that this will operate on an annual basis.

4 I do not believe we should continue to pursue the matter of contributions from industry. The project has already been seriously delayed and we have been assured at official level that our partners will not budge on this issue. However, we propose to say that in return we expect all reference to Governments guaranteeing to cover the future operating losses to be removed forthwith from the agreement which will be signed to launch the project on its next phase.

5 I believe the benefits of your decision will be widely felt on defence collaboration and in other contexts too.

6 Copies of this go to the Prime Minister, Sir Geoffrey Howe, Peter Rees, Ian Stewart and Sir Robin Nicholson.

[Handwritten signature]
NORMAN TEBBIT

JH3BVM



6

10 DOWNING STREET

From the Private Secretary

7 June 1985

Dear Colin,

I enclose a copy of a message to the Prime Minister from Chancellor Kohl about the European Transonic Wind Tunnel. I believe that you have already had it by telegram. I should be grateful for a draft reply.

I am copying this to John Mogg (Department of Trade and Industry), Richard Mottram (Ministry of Defence), Richard Broadbent (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Charles Powell
Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office.

6



British Caledonian

Caledonian House
Crawley West Sussex
RH10 2XA England

Telephone: Gatwick (0293) 58 3710
Cables: Scotair Gatwick Telex: 87161

Sir Adam Thomson, C.B.E.
Chairman

10th June 1985

The Rt. Hon. Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

11/2/85
Prime Minister (2)
*I will acknowledge and thank
Sir Adam for this explanation
of B Cal's decision.*
BT
12/6
MB

Dear Prime Minister,

I am writing to tell you that the Board of British Caledonian has decided to sell our Airbus A310 aircraft and replace them with DC10s and 747s. This decision has been made because the number of medium haul flights that we operate has reduced in recent years, particularly in Libya. It is not economically sensible to operate a two aircraft fleet. Our network, for which we ordered the A310s five years ago, justified three A310 aircraft and we envisaged adding other medium haul routes and increasing the fleet to six A310s. There is now little prospect of obtaining these additional routes.

We have however been extremely pleased with the performance of our A310 aircraft, both technically and financially and we believe them to be excellent aircraft for medium haul operations.

We have on order 7 A320 aircraft and we are very much looking forward to the delivery of these beginning early in 1988. They will be used for our existing short haul operations and will replace our BAC 1-11 aircraft.

Yours sincerely,



SUBJECT
cc Master
Ops

APC

BOTSCHAFT
DER
BUNDESREPUBLIK DEUTSCHLAND London, June 7, 1985
Charge' d'Affaires a.i.
Hans Frhr. v. Stein

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 108/85

Dear Prime Minister,

It gives me great pleasure to transmit to you
the enclosed message by the Chancellor of the
Federal Republic of Germany.

A courtesy translation is attached.

I am, dear Prime Minister,

*Yours sincerely,
Hans Frhr. v. Stein*

The Rt. Hon. Margaret Thatcher, MP
Her Majesty's Prime Minister and
First Lord of the Treasury
10 Downing Street
London SW1

ROBERTUM - KLANGHART

T e l e g r a m m
von
Herrn Helmut Kohl
Bundeskanzler der Bundesrepublik Deutschland
an
The Rt Hon Margaret Thatcher, MP
Her Majesty's Prime Minister and First Lord
of the Treasury

Sehr geehrte Frau Premierminister, liebe Margaret,

leider gab es bei unserer kürzlichen Begegnung in Chequers keine Gelegenheit, mit Ihnen über den geplanten Europäischen Transschall-Windkanal ETW zu sprechen. Erlauben Sie mir daher, dieses Thema auf diesem Weg anzuschneiden.

Zunächst möchte ich meine Freude darüber zum Ausdruck bringen, dass die britische Regierung Ende letzten Jahres dem ETW-Standort Köln-Porz zugestimmt hat und somit unter den vier beteiligten Regierungen in dieser Frage Einvernehmen besteht.

Der Baubeginn für diese wichtige Grossversuchsanlage hängt nunmehr allein von der Sicherstellung der Finanzierungsbeiträge ab. Die Regierungen Frankreichs, der Niederlande und der Bundesrepublik Deutschland haben ihre Finanzierungszusagen bestätigt, so dass nur noch die im Herbst 1984 angekündigte Bestätigung des britischen Finanzierungsbeitrags von 28 % der Baukosten aussteht.

Wie Sie sicher wissen, kommt dem ETW erhebliche Bedeutung zu bei der Erhaltung der Konkurrenzfähigkeit der europäischen Luftfahrtindustrien, da die amerikanische Regierung die Nutzung ihrer modernen Grosswindkanäle durch ausländische Industrien untersagt hat.

Ich wäre Ihnen daher sehr verbunden, wenn Sie sich dafür einsetzen würden, dass der britische Finanzierungsbeitrag möglichst bald bestätigt wird und somit weitere Verzögerungen vermieden würden.

Mit freundlichen Grüßen

Helmut Kohl

Bundeskanzler der Bundesrepublik Deutschland

M e s s a g e

from

Herr Helmut Kohl

Chancellor of the Federal Republic of Germany

to

The Rt Hon Margaret Thatcher, MP

Her Majesty's Prime Minister and First Lord
of the Treasury

Dear Prime Minister, dear Margaret,

During our recent meeting at Chequers there was unfortunately no opportunity to discuss the planned European Transonic Wind Tunnel. Permit me, therefore, to broach the subject in this fashion.

I should first of all like to express my satisfaction at the fact that at the end of last year the British government approved of Cologne-Porz as the site for the Tunnel and that agreement thus exists on this point among the four governments concerned.

The start of construction of this important, large experimental facility now depends solely on the necessary funds being secured. The governments of France, the Netherlands and the Federal Republic of Germany have confirmed their financial pledges, leaving only Britain's confirmation - as announced last autumn - of its pledge to meet 28 % of the construction costs.

You are undoubtedly aware that the Tunnel is of considerable importance in the endeavour to keep European aerospace industry competitive, since the US government has prohibited foreign industries from using its modern large-scale wind tunnels.

I would therefore be most grateful to you if you could seek to ensure that Britain's financial contribution is confirmed as soon as possible so as to avoid any further delay.

Yours sincerely,

Helmut Kohl

CONFIDENTIAL

cc/PC



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
 Secretary of State
 Foreign & Commonwealth Office
 Downing Street
 LONDON SW1A 2AL

NBR 7
CDP-76

6 June 1985

Dear Secretary of State

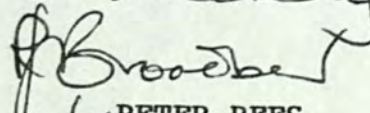
EUROPEAN TRANSONIC WINDTUNNEL (ETW)

I hope very much to come to your meeting on this subject on 10 June but as you know I may not be able to be there at the start. Since I know time will be short, I thought it might assist discussion at the meeting if I set out briefly my views here.

Faced with scarce resources, Norman Tebbit has made clear that the DTI cannot continue to fund the ETW by itself. Michael Heseltine has confirmed that the project commands insufficient priority in Defence terms to justify a contribution from the Defence budget. Plainly, therefore, both the civil and defence priorities of this project are regarded as insufficient.

I share Michael's view that Norman's proposals for withdrawing from the ETW are very much a matter for his Department. Naturally, we all now hope that it will prove possible to negotiate the more substantial financial and managerial participation by industry that will allow the project still to be saved. But failing this, and failing contributions from other PES programmes, withdrawal is the only sensible outcome. Some political embarrassment is only to be expected but, as Michael indicates, the UK is already paying this price as partner governments react to what has been said at the ETW Steering Group meeting. Colleagues will no doubt consider seriously the risk that we will end up paying the price several times over if we now prevaricate further in confirming intentions which are already well known in Europe.

Copies of this letter go to the the Prime Minister, Norman Tebbit, Michael Heseltine and Sir Robin Nicholson.

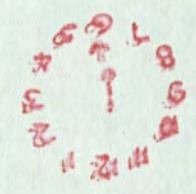
Yours sincerely

 for PETER REES

CONFIDENTIAL

[Approved by the Chief Secretary]

1985

17



JUN 7 1985

File *SS*
bcc PC



10 DOWNING STREET

From the Private Secretary

1 June 1985

Dear John,

EUROPEAN TRANSONIC WIND TUNNEL

The correspondence on this appears to rest with the Defence Secretary's letter of 31 May to the Trade and Industry Secretary.

I do not see any prospect of the Prime Minister being able to chair a meeting of Ministers on this subject in the sort of timescale under discussion. If there is to be such a discussion, I think that she would be grateful if the Foreign and Commonwealth Secretary were to take the Chair.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence), Rachel Lomax (H M Treasury) and Sir Robin Nicholson.

yours sincerely,
C D Powell

C D POWELL

John Mogg, Esq .,
Department of Energy

SS



CCPC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 21/8/5

31st May 1985

*Dear Secretary of State,*EUROPEAN TRANSONIC WIND TUNNEL

Many thanks for your letter of 23rd May.

I would of course regard your proposals to rearrange the funding arrangements for the European Transonic Wind Tunnel (ETW) so as to increase industrial participation, as very much a matter for your Department.

My interest stems from the major effort we have been making to get improved European collaboration in the defence field as an important element in making the best use of all our resources. In a fortnight's time, one of the most significant in a series of Ministerial meetings on this subject will be held in London under the auspices of the Independent European Programme Group. Nothing could be more damaging than our going back on a clear commitment to a major collaborative project at this point.

Officials in the French Defence Ministry have recently made it plain to mine that a decision on the part of the United Kingdom to withdraw from the ETW project would have damaging consequences in other prospective areas of international co-operation on defence.

The Rt Hon Norman Tebbit MP



Apparently the French had learned at a recent meeting of the ETW Steering Committee that we might not be able to find our share of the cost of building the tunnel. They did not mention the possibility of re-negotiating the principles on which the ETW might be financed.

I am distressed to see that the matter seems to have been raised already with our partners in this way, and before any further steps are taken I would wish that the implications are discussed collectively.

Copies of this letter go to the Prime Minister, Geoffrey Howe, Nigel Lawson and Sir Robin Nicholson.

Yours sincerely,

J. D. Dwyer

Michael Heseltine

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

AEROSPACE: A320; march 82.

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31 MAY 1985



FCS/85/156

SECRETARY OF STATE FOR TRADE AND INDUSTRY

European Transonic Wind Tunnel

1. Thank you for your letter of 23 May.
2. The course you propose seems very sensible, and I am grateful to you for consulting me about it. I hope it will lead to a positive result. If on the contrary our partners in the project, or their industries, will not accept it, then our position will be tactically that much less difficult.
3. As to the draft brief, I would suggest that it might give greater emphasis to the advantages of industrial participation as well as presenting it as an unavoidable consequence of our present financial position.
4. I am copying this minute to the Prime Minister, Michael Heseltine, Peter Rees and Sir Robin Nicholson.

A handwritten signature in black ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office
30 May 1985

AND OFFICE

A 320

March 82

30 MAY 1985

1 2 3 4 5 6 7 8 9 10 11 12
1985

CEA



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU511

Secretary of State for Trade and Industry

NBP 17
CDP
23/5

23 May 1985

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for
Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1

D. Sassby.

EUROPEAN TRANSONIC WINDTUNNEL

Thank you for your comments on my letter of 27 March to Michael Heseltine in which I proposed that Ministers in France, Germany and the Netherlands should be notified that the UK could no longer afford to pay its share of the cost of the ETW project.

I have given careful consideration to the concerns you expressed and to the points made by Michael Heseltine and Peter Rees. While I appreciate that withdrawal could damage the UK's reputation as a partner in European collaborative projects and cause us political embarrassment, and indeed I know that Geoffrey Pattie has found that the ETW is the sensitive topic from his contacts with the Germans and French, I regret that the present financial situation of this Department leaves me with no alternative but to inform our partners that HMG cannot continue its participation at the currently assumed levels of national government funding. However, to minimise the damage an abrupt UK withdrawal might cause and to afford one last opportunity to maintain UK participation, I propose to invite partner countries to consider re-negotiation of the principles on which the costs of the projects have so far been shared.

Following consultations with British Aerospace I propose to take the line that industry should be asked to take a much more substantial part in the financing and management of the ETW project. I shall make it clear that the UK industry would be prepared to go along with this approach only if the French, German and Dutch industries were similarly willing to play their part.



It would be the intention that a senior official from this Department should make the initial approach to officials in Germany, France and the Netherlands separately, presenting the proposal as the only alternative to UK withdrawal. He would stress that the UK has consistently maintained that industry should play a much greater part in the project, both practically and financially, and that the issue of industrial participation is formally on record in the conditions attached to the UK offer in 1982 to contribute 27.5% to construction costs. This reflects the view frequently expressed by UK representatives on the ETW Steering Committee, that the ETW is an industrial tool the primary purpose of which is to assist industry in the participating countries to remain competitive into the next century. I attach a summary of the proposed negotiating line.

I realise that such an approach would inevitably create an unwelcome further delay and may have relatively little prospect of success, but I believe it would be wrong, as well as tactically ill-advised, to notify our intention to withdraw without making some constructive proposals for an alternative solution.

I would welcome any comments by close of play on 30 May at the latest as there would be advantage in making the initial approach to our partners during the week beginning 4 June.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, Peter Rees and Sir Robin Nicholson.

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

NORMAN TEBBIT

Enc



ETW

SPEAKING NOTE FOR DISCUSSIONS WITH DR FINKE, GEN. BOUSQUET AND DRS STANTS

You are aware that for several years there has been an unresolved difference of view between the UK Government and the other three partners about the part that our industries should play in this project. This difference was evident in the condition we imposed on our offer of 28% in late 1982, and it has been evident for several years in our difficulty in arriving at agreement about how any operating losses of the ETW should be covered.

Our conception of the ETW is very much as an industrial tool, the primary purpose of which is to assist the industry in our four countries to remain competitive in the next century. For this reason we have long had reservations about the role of research establishments in the management of the ETW and about the general orientation of the project towards a scientific research outlook.

I do not need to rehearse the efforts made over several years to reach acceptable compromises on the issues arising from our basic difference of outlook. In any case, these efforts have been overtaken by events, because last autumn Ministers in DTI began a thorough and wide-ranging critical review of the priorities for our expenditure in support of innovative work in British industry in general. In announcing the results of this review in late March, the Secretary of State referred to the fact that he had decided that within the tight limits of a fixed total budget, work on aircraft and aeroengine R&D had to have a lower priority.

As a result, we are no longer in a position to offer a UK Government contribution of anything like 28% of the capital costs of the ETW. Nor are we able to agree to go ahead with the project unless there is strong industry participation. Rather we must now say that we have no alternative but to put to you the position that without a substantial UK industry financial contribution and involvement in the construction and operation of the ETW we cannot accept the share previously envisaged for the UK in the financing of the project.

It is clear that the UK industry will make a substantial contribution only if this is matched in cash by the industries of our partners and if industry plays a major part in managing the project, and I therefore need to explore



with you possibilities in this direction. This discussion could perhaps include the precise nature of the arrangements for Phase 2.2 and particularly the point at which it will be necessary for all of us to make a final commitment to the full cost of the construction, commissioning and calibration of the ETW. After all the delays, for which the UK is not by any means solely responsible, we need to reach a final decision as soon as possible on whether or not to proceed with construction. To that end we suggest that an early meeting would be desirable of senior representatives of the four partner Governments, accompanied by appropriate industry representation.

Air Division
Department of Trade and Industry
16 May 1985

NEW SPACE : AS20

23 MAY 1985





MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

NSM
OD
16/5

MO 21/8/5

15th May 1985

John Norman

EUROPEAN TRANSONIC WIND TUNNEL

I have seen Peter Rees' letter to you of 7th May in which he urges that the UK make its position on this project known at the earliest opportunity.

As I emphasised in my letter of 18th April I am concerned about the potentially adverse effect of a unilateral British withdrawal from ETW on the UK's participation in other European collaborative ventures. With this in mind I would be grateful to be kept informed of developments, including the outcome of Geoffrey Pattie's talks with Dr Reisenhuber last month and your perception of the possibility of mutual termination. I am particularly concerned that I should have adequate advance notice of any withdrawal from the ETW project on our part, so that I can do all that is possible to minimise damage to UK interests in defence collaboration within Europe. I would be happy to discuss this with you and colleagues if this would be helpful.

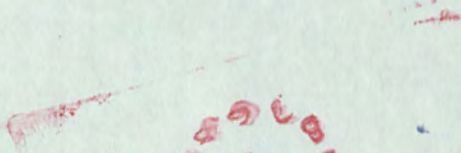
I am copying this to the Prime Minister, Geoffrey Howe, Nigel Lawson and Sir Robin Nicholson.

for ever
Michael Heseltine

Michael Heseltine

The Rt Hon Norman Tebbit MP

AEROSPACE, A320; March 1982



15 MAR 1982



CCPC

NBM
PM

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
Secretary of State
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

7 May 1985

THE EUROPEAN TRANSONIC WINDTUNNEL

I have seen Michael Heseltine's letter of 18 April, in reply to yours of 27 March, in which he confirms that this project does not command sufficient priority in defence terms for him to offer a contribution to its further funding. I have also seen Geoffrey Howe's reply of 22 April which points out what the withdrawal will mean for the prospects of close European collaboration on science and technology.

You will doubtless be considering further your preliminary view on withdrawal from this project. I would only say if you conclude that the civil merits of the project are not such as to cause you to fund its construction and operating costs from within the total of your department's PES programmes, I am sure that Ministers in France, Germany and the Netherlands should be told forthwith. There is no sign that our partners are contemplating mutual withdrawal, and every indication that they are disturbed by UK procrastination thus far. We should aim to make our position known at the earliest opportunity.

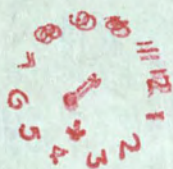
I am copying this letter to the Prime Minister, Michael Heseltine, Geoffrey Howe and Sir Robin Nicholson.

PETER REES

AEROSPACE

March 87

A320



17 MAY 1986

NBM
AT
22/4
ccfkFCS/85/105SECRETARY OF STATE FOR TRADE AND INDUSTRYThe European Transonic Windtunnel

File with AT

1. You sent me a copy of your letter of 27 March to Michael Heseltine which said that you had decided your Department could no longer afford to fund this project, and warning that the UK may withdraw. I naturally await Michael's comments on your letter. But in view of the likely serious consequences of the course you propose, I wanted to put forward my reservations now.

2. Withdrawal, especially at this late stage, would come as a very considerable blow particularly to the Germans, but also to the French and Dutch, with whom, as you say, we have been working on this project since 1978. When senior officials from the four countries concerned met last October the UK representative confirmed that we were prepared to offer up to 28% of the construction costs subject to the resolution of the outstanding problems. I believe Geoffrey Pattie spoke even more positively to the Germans in the margins of the Research Council on 6 November. Since then, our continuing failure to lift our reserve on construction costs has led to the Germans to suspect that something is amiss, and I have seen Riesenhuber's recent letter to you asking that it be lifted. But neither the Germans, nor the other countries involved, have so far had any indication from us that we may seriously be contemplating withdrawal.

3. In these circumstances, our withdrawal would be likely to cause us considerable political and practical



damage, especially if it puts the future of the project in doubt or leads to prolonged fresh negotiations over funding among the remaining participants. They would ask why we did not make our position clear earlier. Our standing as a reliable and worthwhile partner in collaborative projects of high scientific and technical importance would suffer further. We risk losing particularly German goodwill on a number of issues in the science and technology field where we benefit from a close relationship (for example, over our role in the Columbus space programme and Airbus). The tendency of the French and Germans to look to each other first for collaboration over scientific and technical projects would be strengthened, especially in the key areas of civil and military aerospace. This would be much to our disadvantage. Conversely, it would be more difficult for us to persuade others to participate in projects sited in the UK (such as the Spallation Neutron Source, in which Sir Robin Nicholson is seeking German participation).

4. I am sure that before final decisions are made, you and Michael Heseltine will give these factors full consideration. In view of the European dimension, I hope that the FCO can be represented at any collective Ministerial discussion that takes place.

5. I am copying this minute to the Prime Minister, Michael Heseltine, Nigel Lawson and Sir Robin Nicholson.

GEOFFREY HOWE

Foreign and Commonwealth Office
22 April, 1985

AEROSPACE : A320 : March 82



22 APR 1985

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3AC
NBIM
COP
22/4

MO 21/8/5

18th April 1985

EUROPEAN TRANSONIC WIND TUNNEL

Thank you for the opportunity to comment on your proposal to inform Ministers in France, Germany and the Netherlands that the UK can no longer afford to pay its share of the cost of this project. Although the project with its predominantly civil application does not command sufficient priority in defence terms to justify my making any further provision for it, I do not believe this action should be taken without very careful consideration of the likely implications for the British role in other, wider, areas of possible European Cooperation. I suspect that a unilateral British withdrawal from ETW at this stage could adversely affect whatever aspirations we might have to act as host country for any other future European research facility and could further strengthen the Franco-German axis in advanced technology in a way which we have been at pains to try to prevent.

I understand that Geoffrey Pattie may be talking before long to Dr Heinz Riesenhuber, the Federal Minister for Research and Technology. If so, it would be useful to hear the outcome of these talks before any decision is taken for the UK to withdraw from ETW. The Germans have, no doubt, attached some importance to having the ETW located in Cologne. In particular we need to know

The Rt Hon Norman Tebbit MP

CONFIDENTIAL UK EYES A



whether there is any prospect that all the partners might mutually agree to termination before exposing a UK position which is almost bound to bring substantial recrimination.

Copies go to the Prime Minister, Nigel Lawson, Geoffrey Howe and Sir Robin Nicholson.

you see

Michael Heseltine

AEROSPACE : A320

March 1982

22 APR 1985





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

SEP

②

Secretary of State for Trade and Industry

Prime Minister

27 March 1985

*EDP
27/3*

Rt Hon Michael Heseltine MP
 Secretary of State for Defence
 Ministry of Defence
 Main Building
 Whitehall
 London SW1

D. MacLachlan

MS

THE EUROPEAN TRANSONIC WINDTUNNEL (ETW)

Since the signature of a Memorandum of Understanding with France, Germany and the Netherlands in 1978, the UK share of the preliminary design phase of this project has been funded equally by your Department and mine.

2 In 1981 the question of our commitment beyond the present phase was raised. I wrote to John Nott offering to continue to pay half the UK share, and urging him to match my offer. The ETW would play an important role in military as well as civil aircraft development.

3 The debate between our departments was overtaken by the Falklands Campaign, so Patrick Jenkin wrote to John Nott to say that because of the serious consequences of UK withdrawal from the project and the need for an early decision, this Department would take on the whole UK share for the time being. He added that once the project was firmly launched he expected to re-examine the matter with MoD.

4 I write now to say that the project is still not firmly launched, and that I no longer believe my Department can afford to fund it.

5 As I said in the House on Monday, I have decided to reduce the resources devoted in future to civil aircraft and aero-engine R&D. The ETW would absorb an unacceptably large proportion of these reduced resources.

6 I believe that it is right for me to notify Ministers in France, Germany and The Netherlands of my decision soon, if possible before Easter, but believe you should first have an opportunity to comment if you wish. The ETW is as much directed to capability for military programmes as civil; and the case for us to

JH4AYD



withdraw is occasioned as much by the lack of an MoD contribution as DTI's.

7 Copies of this go to the Prime Minister, Nigel Lawson, Geoffrey Howe and Sir Robin Nicholson.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', written over a large, stylized initial 'N'.

NORMAN TEBBIT

JH4AYD

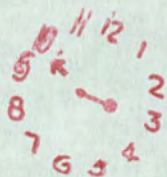


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27 MAR 1985

MEMORANDUM
A320
PART 2

12 DEC 1984





ADPM

AT 12/11

CCND

Treasury Chambers, Parliament Street, SWIP 3AG

Geoffrey Pattie Esq MP
Minister of State for Industry and Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

16 November 1984

EUROPEAN TRANSONIC WINDTUNNEL (ETW)

You wrote to Nigel Lawson on 2 November to discharge an E(A) remit by reporting on the costs and benefits of securing a UK site for the ETW.

In view of the considerable doubts which attach to the benefits of a UK location, and given the sizeable premium that would have to be paid even assuming that our European partners could be shifted in their preference for the Cologne site, I am content to accept the recommendation that the UK should make no bid.

I also agree that the Cologne site is to be preferred to the other sites on the continent, and that the distribution of the national shares of construction costs is reasonable. I am therefore content for you to withdraw the UK reserve that had to be entered at the meeting of senior officials on 30 October.

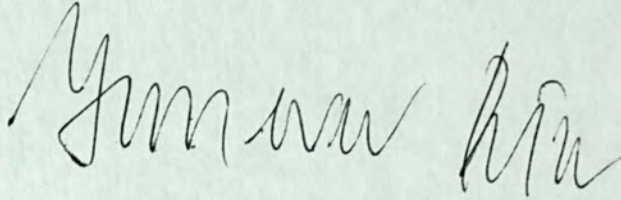
On the construction of the ETW, it is in any case premature to commit the UK to Phase 3 now, when work has yet to start on Phase 2.2. But I also share your concern that there is still no agreement on the operating regime which will form part of Phase 3. I recognise that the UK has been isolated in its stance hitherto that the ETW ought to operate on a commercial basis, but I continue to think this stance the right one. I understand that the operating plan drawn up for the ETW suggests that the usage will be sufficient to allow the facility to breakeven. If there is doubt about this, then we clearly ought to think again about the viability of the project. But if there is no doubt, then the initial deficits should be funded by bank loans to be

/repaid

CONFIDENTIAL

repaid out of future income. I do not wish to enter upon deficit finance for ETW operating costs, even only for the startup period, only to find that under pressure from our partners it develops into a permanent operating subsidy. I therefore endorse your conclusion that the UK should not move beyond Phase 2.2 without further consultation.

I am copying this reply to the Prime Minister, Michael Heseltine, Tom King, other E(A) colleagues and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Gordon' followed by a flourish and 'Rees'.

PETER REES

CONFIDENTIAL

AEROSPACE March 82

A320

CONFIDENTIAL



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215
GTN 215 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

2 November 1984

Dear Nigel

EUROPEAN TRANSONIC WINDTUNNEL

At E(A) on 6 February Norman Tebbit was invited to arrange for the costs and benefits of securing the location in the UK of the European Transonic Windtunnel (ETW) to be studied, and to report the outcome to E(A). I am now writing to discharge that remit, and to bring you up to date on the project overall.

A detailed study has been carried out by my Department, in consultation with Treasury, MOD and Department of Employment officials. The conclusion is that there must be considerable doubt whether the benefits from locating the ETW in the UK would be sufficient to offset the additional capital cost incurred by the host country (estimated at £17.5m). The study recommends that the UK should make no bid for location.

Independently of this, it has always been clear that it would be very difficult to find a suitable site in the UK. Examination of alternative sites indicated some time ago that if the ETW could not be in Britain, our preferred site was the German proposal at Cologne.

On 30 October senior officials from the partner countries (France, Germany, Holland and the UK) met in London. For the first time all three of our partners made clear they could agree to Cologne.

The question of site is linked to the level of contribution from each country to the capital cost of construction of the tunnel. On the basis that Cologne should be the site the following national shares for the costs of construction were proposed:

N01/N01AAK



Germany - 38%
France - 28%
UK - 28%
Holland - 6%

All three of our partners indicated willingness to accept the shares proposed for them.

On my instructions, my officials placed a reserve on UK agreement to Cologne and on the proposed UK capital contribution of 28%.

The project is now due to move into a final design phase, to be followed by a construction and operation phase.

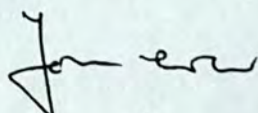
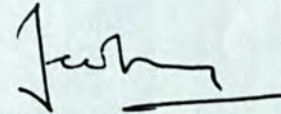
There are still difficult issues to be settled, notably the funding of initial operating losses. I also want to see improvements in the way the project is managed. I would not propose to commit the UK to the construction phase of the project until satisfactory progress had been made on these issues. Our partners indeed may wish to force the issue on the question of funding operating losses (on which the UK is currently alone in arguing that Governments should not be involved) at an earlier date.

UK funding for the final design phase would be provided from my Department's Civil Aviation and Aero-engine (CA and Ae) research programme, and an appropriate sum is already provided in the PES. For the construction phase, British Aerospace have conditionally offered a contribution of £3m towards a UK 28% share, currently estimated at £33m. The remaining £30m would again be met from my Department's CA and Ae programme. The expenditure is expected to fall mainly in the period 1988-89 to 1994-95.

In order to make progress in the discussions I believe the UK should now lift its reserve on the Cologne site and on a conditional UK contribution of 28% to the construction costs. I will keep you in touch with the progress of discussions with our partners, especially on the question of the funding of initial operating losses, and will in any event not commit the UK to move beyond the final design phase without further consultation with you.

I should be grateful for your agreement that I should proceed in this way.

I am copying this letter to the Prime Minister, Michael Heseltine, Tom King, other E(A) colleagues and Sir Robert Armstrong.



GEOFFREY PATTIE

M12/M12AES

AEROSPACE

AS20

March 82

E 5 NOV 1984



over

N. Lansley

Filer



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU876

Secretary of State
for Trade and Industry

1 March 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear A. Turnbull *TT* *1/3*

A320

... I enclose the final text of the statement which my Secretary of State will be making this afternoon on the aerospace industry, including launch aid for the A320.

I am copying this letter and the statement to Peter Ricketts and Margaret O'Mara.

Yours ever,
Andrew Lansley

ANDREW LANSLEY
Private Secretary



JF5819

STATEMENT ON AEROSPACE POLICY

With permission, Mr Speaker, I shall make a statement about the Government's policy towards the aerospace industry.

2 Last November the Government announced launch aid of £70m to assist with the development of the E4 version of the Rolls-Royce RB211-535 now powering all Boeing 757s in airline service. Earlier this month I informed the House that approval had been given for Rolls-Royce to participate in the V2500 project, and to collaborate with General Electric of the USA on larger civil engines. These programmes represent the core of a civil engine strategy based on international collaboration and dedicated to commercial success. The House will be informed when launch aid arrangements for the V2500 are finalised but as with the E4 scheme the Government will expect a real return on the taxpayers' investment.

3 In September 1982 launch aid of £41m to assist Westland was agreed for their W30 civil helicopter and last month the Government agreed £60m in launch aid towards Westland's civil costs in the Anglo-Italian EH101 project for a helicopter for civil and naval use in the 1990s and beyond. These investments will help to bring Westland into the expanding civil market and will be repayable with a return in real terms by a levy on sales.



4 British Aerospace have now decided to participate in the A320 and to launch the ATP. The Government have reached agreement with British Aerospace on the terms of launch aid for the A320. Launch aid of up to £250m repayable on terms designed to yield a return in real terms on the Government's investment has now been agreed. As a result of our agreement I understand that the company will now join its partners in formally launching the A320 programme. My Hon Friend the Minister of State for Industry will be meeting his French, German and Spanish colleagues shortly to endorse this. BAe will also proceed, without Government assistance, with the ATP aircraft. I am sure the House will join me in wishing these projects every success.

5 Taken together these decisions express a clear commitment by the Government to support the efforts of the aerospace sector to maintain its position as an internationally competitive industry for the future. I believe the House will welcome our determination to see this sector of British industry, management and production workforce alike, given the chance to succeed.

N T

Department of Trade and Industry

March 1984



BPP

T.

10 DOWNING STREET

From the Private Secretary

1 March 1984

A320

Thank you for your letter of 29 February.

As I told you on the telephone, the Prime Minister agrees that the messages to President Mitterrand and Chancellor Kohl should be despatched, with the words 'on 1 March' being replaced by 'later today'.

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office

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TO IMMEDIATE PARIS
TELEGRAM NUMBER 170 OF 29 FEBRUARY,
AND TO IMMEDIATE BONN (DESKBY 291530Z)
MIPT: A320 LETTER TO MITTERRAND

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 35/84

I WANTED TO SEND YOU A PERSONAL LETTER TO INFORM YOU OF OUR DECISION ON THE A320, A PROJECT WHICH IS OF GREAT IMPORTANCE TO ALL OF US. I HAVE ALSO TOLD HELMUT KOHL.

I AM PLEASED TO SAY THAT WE HAVE DECIDED THAT WE CAN PROVIDE THE LAUNCH AID THAT WILL ENABLE BRITISH AEROSPACE TO GO AHEAD WITH THE PROJECT. NORMAN TEBBIT WILL BE ANNOUNCING THIS IN PARLIAMENT ON 1 MARCH, AND WILL BE WRITING TO M. PITERMAN ABOUT DETAILS. I UNDERSTAND THAT NORMAN LAMONT AND HIS FRENCH, GERMAN AND SPANISH COLLEAGUES WILL THEN MEET FORMALLY TO INAUGURATE THE PROJECT.

I HOPE THAT THE A320 WILL BE A SUCCESSFUL COMMERCIAL VENTURE AND PLAY A KEY PART IN THE CONTINUED DEVELOPMENT OF A STRONG EUROPEAN AEROSPACE INDUSTRY. I ALSO HOPE THAT WE CAN FIND OTHER POTENTIALLY PROFITABLE VENTURES TO EMBARK ON TOGETHER, NOT ONLY IN THE AEROSPACE SECTOR. OUR DECISION ON 28 FEBRUARY TO BEGIN THE ESPRIT PROGRAMME IS A FURTHER SIGN OF OUR COMMITMENT TO WORK TOGETHER IN EUROPE IN HIGH TECHNOLOGY SECTORS, THROUGH SOUNDLY-BASED PROGRAMMES WHICH ENJOY THE FULL BACKING OF OUR INDUSTRIES. WE SHOULD NOW BE ABLE TO GIVE A NEW IMPETUS TO INDUSTRIAL COLLABORATION IN THE EUROPEAN COMMUNITY. I AM CONFIDENT THAT THE A320 AND ESPRIT WILL SHOW WHAT EUROPEAN INDUSTRIES CAN DO WHEN THEY WORK TOGETHER.

HOWE

LIMITED	PS/MR RIFKIND	COPIES TO
MAED	PS/MR WHITNEY	PS/MR TEBBIT, DTI.
WED	PS/PUS	P HUDSON ESQ, DTI
ECD(I)	SIR J BULLARD	M J WHITEHEAD ESQ, AIR DIVISION,
NAD	SIR C TICKELL	DTI.
ESSD	MR ADAMS	
DEF DEP	MR JENKINS	
PS		

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10 DOWNING STREET

From the Private Secretary

29 February 1984

A320

Thank you for your letter of 27 February.

This is just to confirm that the question of the A320 project was not raised during Chancellor Kohl's visit to London yesterday.

I am copying this letter to Callum McCarthy (Department of Trade and Industry).

A. J. COLES

Peter Ricketts Esq
Foreign and Commonwealth Office.

6

Aerospace

A320

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

29 February, 1984

Dear John,

A320

I wrote to you on 27 February with a brief on the A320 for the visit of Chancellor Kohl, and told you that we would be likely to recommend that the Prime Minister write to both President Mitterand and the German Chancellor on this subject.

I now enclose drafts. We should like to instruct HM Ambassadors in Paris and Bonn to deliver these letters if possible on the morning of 1 March, so that they are received by the two Heads of Government before Mr Tebbit makes his statement on the A320 in Parliament the same afternoon. As I made clear in my earlier letter, the French and Germans have been watching our discussions about the A320 closely, as the project is important for them. We now want to make the most of our readiness to participate. Our decisions on A320 and Esprit give us an opportunity to demonstrate that we take industrial collaboration in Europe seriously.

The Foreign Secretary has not yet seen this letter and enclosures; I shall be showing him a copy overnight.

Yours ever,
Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

Aerospace
A320.

London and Countrywide Office

London SW1A 1AA



DSR (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: President Mitterrand

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

I wanted to let you know personally of our decision on the A320 before this is announced publicly. I am also telling Helmut Kohl.

CAVEAT.....

I am pleased to say that we have decided that we can provide the launch aid that will enable British Aerospace to go ahead with the project. Norman Tebbit will be announcing this in Parliament ~~on 1 March~~ ^{late today}, and will be writing to M. Fiterman about the details. I understand that Ministers from the four countries will then meet formally to inaugurate the project.

I hope that the A320 will be a successful commercial venture and play a key part in the continued development of a strong European airspace industry. I also hope that we can find other potentially profitable ventures, to embark on together,

Enclosures—flag(s).....

/not

not only in the aerospace sector. Our decision on 28 February to begin the Esprit programme is a further sign of our commitment to work together in Europe in high technology sectors, through soundly-based programmes which enjoy the full backing of our industries. We should now be able to give a new impetus to industrial collaboration in the European Community. I am confident that the A 320 and Esprit will show what European industries can do when they work together.



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: Chancellor Kohl

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

I very much enjoyed our discussions on Tuesday. One issue which we did not have time to cover was the A320. I wanted to let you know personally of our decision on this before it is announced publicly. I am also telling François Mitterrand.

I am pleased to say that we can provide the launch aid that will enable British Aerospace to go ahead with the project. Norman Tebbit will be announcing this in Parliament ^{later today} ~~on 1 March~~, and will be writing to Herr Gruner about details. I understand that Ministers from the four countries will then meet formally in Bonn to inaugurate the project.

I hope that the A 320 will be a successful commercial venture and play a key part in the continued development of a strong European aerospace industry. I also hope that we can find other potentially profitable ventures to embark on

/together

Enclosures—flag(s).....

together, not only in the aerospace sector. Our decision on 28 February to begin the Esprit programme is a further sign of our commitment to work together in Europe in high technology sectors, through soundly-based programmes which enjoy the full backing of our industries. We should now be able to give a new impetus to industrial collaboration in the European Community. I am confident that the A320 and Esprit will show what European industries can do when they work together.



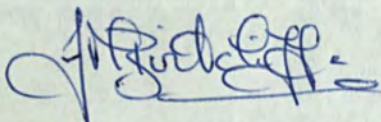
29 FEB 1984



MR A TURNBULL
(PS/PRIME MINISTER)

Your note for the record dated 31 January 1984 on the A320, classified Secret and Personal, and with a limited number of 5 copies of which we hold the top copy (no.1).

2. Could we have your permission to downgrade this document to Confidential?



J M BINTCLIFFE
PS/Mr Michell
Air2
Rm 208 Ashdown House
212 0894

29 February 1984

AT agrees,
provided SIS/DTI
has no objection.

Spoke to DTI Private
Office who will deal.
- rang back &
agreed it should
be downgraded to
Confidential

NR113

Aerospace: A320

3182



29 FEB 1994



Chancellor of the Duchy of Lancaster

Prime Minister
To note

AT 28/2

PRIME MINISTER

LAUNCH AID FOR A320

1. The Secretary of State for Trade and Industry minuted you yesterday on his negotiations with BAe.
2. It is important to recognise how far this has slipped:
 - (1) DTI themselves had suggested starting the bidding at £185 m. On the Secretary of State's recommendation, E(A) agreed a maximum of £220 m ("I should be empowered to negotiate Government assistance of up to £220 m ...") It has now turned out at £250 m.
 - (2) The original proposition was that the money should be repaid over 400 aircraft: it is now 600.
 - (3) On the face of it the £50 m repayable "unrelated to sales" may look attractive. But it is offset by the fact that no levy would now be payable on the first 75 aircraft delivered. Indeed as the first 30 aircraft are scheduled to be delivered in 1988 while the £50 m does not begin to be repayable until 1989-90 it would seem to incorporate a further element of deferment. While the Secretary of State may be right in saying that it is "a unique feature" he is optimistic in suggesting that it "introduces a satisfactory element of commercial incentive on BAe".
3. As you know I believe that in political terms we have no option but to proceed. But we should be hesitant in claiming even to ourselves that we have secured a favourable deal.

A.C.

CONFIDENTIAL

file da



cc HMT LPS
NIO DOT
D/N CDL
SO D/M
WO MAFF
DOE CST

bc NO

10 DOWNING STREET

From the Private Secretary

28 February 1984

A320

The Prime Minister has seen your Secretary of State's minute of 27 February recording the outcome of negotiations with BAe on the financing of the A320. She endorses the terms of the deal and is content with the draft of the statement to be made on Thursday.

I am copying this letter to the Private Secretaries to members of E(A), to Janet Lewis-Jones (Lord President's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

da

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

27 February, 1984

Dear John,

MS

We understand that Mr Tebbit proposes to make a statement in Parliament on 1 March about the negotiations with British Aerospace on the amount and terms of launch aid for the A 320.

The French and Germans have of course been watching these discussions closely, as the A320 project is important for them. We want to make the most of our readiness to participate, and think that it would be helpful if the Prime Minister could tell Chancellor Kohl personally. The Chancellor's visit tomorrow would be a good opportunity, and I enclose a speaking note. The Department of Trade and Industry agrees.

We intend further to recommend soon that the Prime Minister write to President Mitterrand. It might also be appropriate for the Prime Minister to write briefly to Chancellor Kohl after the Chequers meeting confirming our decision.

You will wish to note that if by any chance Ministers or the BAe board raise tomorrow a last minute objection to the DTI/BAe deal the DTI would prefer the Prime Minister not to raise the subject and simply to say if asked that we are still considering the question of launch aid urgently. The DTI will warn you if this is necessary.

The Foreign Secretary has not yet seen this letter: I shall be showing him a copy overnight.

/also

I am/sending a copy of this letter to Callum McCarthy.

Yours ever,

(P F Ricketts)
Private Secretary

P F Ricketts

A J Coles Esq
10 Downing Street



VISIT OF CHANCELLOR KOHL: 28 FEBRUARY

A320

Points to Make

1. Pleased to say that we are very close to agreement with British Aerospace on financial support for the A320 project. Details not finally settled between government and company so must ask you to treat this information in strict confidence. But Mr Tebbit expects to make statement in Parliament on 1 March. Hope that the A320 will be a successful commercial venture. Should like the project to give a new impetus to industrial collaboration in Europe.

MARITIME, AVIATION AND
ENVIRONMENT DEPARTMENT

27 FEBRUARY 1984



VISIT OF CHANCELLOR KOHL: 28 FEBRUARY

A320

Essential Facts

2. DTI Ministers reached agreement with BAe on 24 February on the amount and terms of launch aid for the Airbus A320 project subject to any comment after final notification to other Ministers concerned and the BAe board. Mr Tebbit has informed the Prime Minister in a minute copied to colleagues, now being circulated. The DTI have offered £250m compared to BAe's original bid of £440m, and Mr Tebbit plans to announce this in Parliament on 1 March.

3. The news will be very welcome to the German Government, who decided to participate in the project on 22 February. They are making a repayable loan of £358m to the German partner, MBB. Aerospatiale of France and Casa of Spain, the other two industrial partners are already committed, and the project can formally be launched once BAe are ready. Airbus Ministers (Mr Lamont for HMG) are due to meet in the first half of March in Germany to plan the way forward.

4. We should like to exploit to our advantage in Europe our decision to back the A320. It gives us an opportunity to demonstrate that we take industrial collaboration in Europe seriously and that we are committed to working together with our partners in Europe. This will help to refute the claims often made in the post-Stuttgart discussions

/that

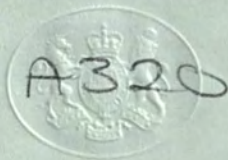


that we are not serious European partners. Chancellor Kohl's visit is a first occasion to convey these thoughts at a high level. We will be recommending that the Prime Minister write to him once the decision is confirmed, and also write, at greater length, to President Mitterrand.

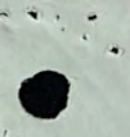
MARITIME, AVIATION AND
ENVIRONMENT DEPARTMENT

27 FEBRUARY 1984

Aerospace :



A320





JF5825

cc NO

Prime Minister ①

Agreement has been reached
with BAe on launch aid of
£250 million.

Agree the deal and the
statement?

- Yes *mt* *AT* 27/2

CONFIDENTIAL

PRIME MINISTER

A320

I have now concluded my negotiations with British Aerospace (BAe) on the financing of the A320, in accordance with my remit from E(A) Committee on 6 February, and in the light of views subsequently expressed by you and the Chancellor, whom I have consulted throughout the negotiations. To bring ... others up to date, I attach a copy of the Chancellor's letter to me of 22 February.

... 2 The proposed deal is set out in the attached note. It provides for £250m of launch aid (just over half BAe's current estimate of their development costs), to be advanced in the years 1984-87. BAe have also decided to proceed on their own account (without launch aid) with development of the advanced turbo-prop aircraft, a projected 60-70 seat aircraft, to replace the existing BAe 748.

3 £50m of the £250m launch aid will be repayable over the three years 1989/90 to 1991/92 unrelated to sales of the aircraft. This is, I believe, a unique feature of the proposed arrangement, compared to past launch aided projects, and introduces a satisfactory element of commercial incentive on BAe. The company will also be finding from its own



resources the balance of the development costs of the A320 plus production financing. Together these could total £400m.

4 The remaining £200m of the £250m launch aid will be repayable through levies on sales of the A320. The levies will be calculated to yield 7 per cent to the Government, that is 2 per cent real return over the 5 per cent assumed inflation, on top of the principal outlay.

5 I believe this strikes an appropriate balance between Government support and the need to apply a commercial incentive. It is a considerably tighter deal than either the Germans or (I believe) the French have negotiated with their manufacturers. It is within the limits proposed by the Chancellor, save only that we have not succeeded, despite pressing BAe hard, in obtaining an undertaking on recourse, which the Chancellor would ideally have preferred.

6 I would propose to announce the deal to the House on 1 March and attach a draft statement on which I should be grateful for any comments by noon tomorrow.

7 I am copying this minute to E(A) colleagues, to the Lord President, to the Chief Whip and to Sir Robert Armstrong.

NT

27 February 1984



A.320: PROPOSED DEAL WITH BAe

- 1 The Government's support will be given as launch aid.
- 2 The amount of support will be £250m on the understanding that BAe also proceed with the ATP project (but without launch aid for that project).
- 3 The launch aid will be front loaded to match expenditure on the A.320. No monies will be paid in advance of expenditure incurred, and the maximum payable in the period 1984-86 will be

	1984	1985	1986
£m	62	73	86

The balance will be payable in 1987.

- 4 £50m of the launch aid will be repayable as follows:

	1989/90	1990/91	1991/92 (Govt financial years)
£m	10	20	20

- 5 The remaining £200m will be repayable via levies on sales.
- 6 In addition, the Government will require a real rate of return on its investment. This will also be recovered through levies which will initially be calculated to give the Government a 2% real return over 600 aircraft, assuming 5% inflation.
- 7 To achieve this the levies will be applied on a sliding scale as follows, up to aircraft No 600:

Deliveries	Levy per aircraft *
0-75	Nil
76-175	£500,000
176-275	£610,000
276-375	£720,000
376-475	£830,000
476-600	£940,000

* NB these figures subject to final checking



8 The schedule of levies will be reviewed when aircraft No 475 has been delivered. If at that time it appears that the Government will not have achieved its 7% (nominal) return at aircraft 600, the rate of levy on aircraft Nos 601-700 will be set to achieve a 7% nominal return by aircraft 700.

If the review at 475 aircraft shows that by aircraft 600 the Government will have exceeded the target rate of return, the rate of levy on aircraft 476-600 will be reduced accordingly.

9 Once the Government has achieved the target 2% real rate of return (assuming 5% inflation) or when 700 aircraft have been delivered (whichever occurs first) the rate of levy on the next 200 aircraft deliveries will be £250,000.

10 BAe if they so wish shall have the right to make earlier repayments than scheduled. If such earlier repayments have the result of achieving for the Government the target real rate of return of 2% (assuming 5% inflation) BAe will have the right to call for levy payments on subsequent deliveries to be reviewed.



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

22 February 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry

New Secretary of State,

A320

At our meeting yesterday you mentioned possible fallback positions for the final round of negotiations with British Aerospace. I have now discussed matters further with Peter Rees, following the contacts with DTI officials which we yesterday agreed should take place.

Peter and I naturally hope that you can stay as close as possible to the original E(A) offer, which we consider very generous. But, subject to the views of our E(A) colleagues, we would be prepared to accept your proposal, in the following revised form, for a further concession if you still judge it necessary to secure agreement with the company:

- a. launch aid of up to £250 million;
- b. the payments to be front-end loaded on the following pattern:

<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Total</u>
£62m	£73m	£86m	£29m	£250m

- c. payments in any year to be restricted to 100 per cent of development expenditure on the A320 in that year. If there is slippage in 1984-86 from the above schedule the residue may be paid in 1987, subject of course to the 100 per cent rule;
- d. at least £30 million is to be repaid on a fixed schedule starting around 1990 (but no later than 1992) over a three year period;



- e. the remaining launch aid, and the interest on the capital sum repaid under (d) above, should be repaid with a 2 per cent real return by the 600th aircraft sale, or as near to this as possible and no later than the 700th aircraft sale, through a levy on sales revenue;
- f. levies to continue on aircraft sales beyond the point at which a 2 per cent real return is recovered.

The two key points are of course that £250 million seems to us the absolute maximum level of assistance that should be offered; and that a 2 per cent real return seems the minimum repayment condition.

We would also hope that you could secure two improvements in the repayment element of the package. First, the levy rate should be set high enough on the initial sales to achieve a reasonable degree of repayment as early as possible. Given the serious doubts about whether even 600 sales will be achieved, some "front-ending" of repayments would obviously be desirable - and not unreasonable, given the high degree of "front-ending" of assistance. Secondly, you persuaded us yesterday that recourse to the company's general revenues for the full repayment objective would not be negotiable. However, I hope that some limited recourse provision can be negotiated so that the Government has some assurance that it will get some of its money back eventually.

Finally, Peter reminds me that there is as yet no PES provision for any of this. You will clearly wish to settle the public expenditure treatment with him fairly soon - perhaps when you have concluded your negotiations with Rolls Royce about V2500 launch aid.

I am copying this letter to the Prime Minister, but not more widely, since I assume that you would still wish to put your proposal to E(A) - as we yesterday agreed would be necessary.

*Yours sincerely,
John Kew*

P.P. NIGEL LAWSON

STATEMENT ON AEROSPACE POLICY

With permission, Mr Speaker, I shall make a statement about the Government's policy towards the aerospace industry.

2 Last November the Government announced launch aid of £70m to assist with the development of the E4 version of the Rolls-Royce RB211-535 now powering all Boeing 757s in airline service. Earlier this month I informed the House that approval had been given for Rolls-Royce to participate in the V2500 project, and to collaborate with General Electric of the USA on larger civil engines. These programmes represent the core of a commercially successful international collaboration civil engine strategy. The House will be informed when launch aid arrangements for the V2500 are finalised but as with the E4 scheme the Government will expect a real return on its investment.

3 In September 1982 launch aid of £41m to assist Westland was agreed for their W30 civil helicopter and last month the Government agreed £60m in launch aid towards Westland's civil costs in the Anglo-Italian EH101 project for a helicopter for civil and naval use in the 1990s and beyond. These investments will help to bring Westland into the expanding civil market and will be repayable with a return in real terms by a levy on sales.

4 British Aerospace have now decided to launch two new projects, the ATP and the A320. The Government have reached agreement with British Aerospace on the terms of launch aid for the A320. Launch aid of up to £250m repayable on terms designed to yield a return in real terms on the Government's investment has now been agreed. As a result of our agreement I understand that the company will now join its partners in formally launching the A320 programme. The company will also proceed, without Government assistance, with the ATP aircraft. I am sure the House will join me in wishing these projects every success.

5 Taken together these decisions show a clear commitment by the Government to support the efforts of the aerospace sector to establish itself as an internationally competitive industry for the future. I believe the House will welcome our determination to see British industry succeed in this important area of advanced technology.

N T

Department of Trade and Industry

February 1984

(2)

PRIME MINISTER

c.c. Mr. Redwood

A320 AIRBUS

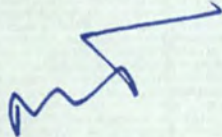
Mr. Tebbit met the BAe Chairman and Managing Director last night and both sides agreed, ad referendum their colleagues, to launch aid of £250 million, phased as in the Chancellor's letter.

Other points of the agreement are that £50 million (rather than £30 million as originally envisaged) will be repaid regardless of sales. The remaining launch aid will be repaid between the 75th and 600th sale. Still to be settled are the taper between these two points and the rate of levy beyond 600.

Mr. Tebbit is likely to write to his colleagues on Monday and make an announcement on Thursday.

CONFIDENTIAL

AT



24 February 1984

②

PRIME MINISTERA320 AIRBUS

The Chancellor has agreed a fallback position on launch aid with Mr. Tebbit - see attached letter. It is, as agreed with you, an extra £30m, making £250m in total, front end loaded but not to the point where payments exceed BAe's actual expenditure.

Mr. Tebbit is seeing Pearce, Lygo and Friend (Finance Director) this evening. He will say that he has not got clearance from colleagues but believes he could get agreement to an extra £30m but that he would not recommend to colleagues anything further nor would he expect them to agree. He will say that if BAe are not prepared to accept his offer, then so be it.

If the BAe team say yes, they will go back to their Board for final agreement. Mr. Tebbit will write to E(A) colleagues tomorrow, seeking their agreement. If this is received and the BAe Board also agrees, he would make a statement to the House on Tuesday, 28 February.

To note this position.

Andrew Turnbull
23 February 1984



CCATO
Prime Minister
 To note

AT
 22/2

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

22 February 1984

The Rt Hon Norman Tebbit MP
 Secretary of State for Trade and Industry
 Department of Trade and Industry

New Secretary of State,

A320

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Yours sincerely,
J. Kew

P.P. NIGEL LAWSON

22 JAN 1984





10 DOWNING STREET

From the Private Secretary

20 February 1984

file

cc Bob Young
POL UnitA320 Airbus

Your Secretary of State called on the Prime Minister to bring her up-to-date on negotiations on launch aid for the A320 airbus. He had, as agreed at E(A), offered the company £220m. BAe were still considering this offer. They were worried that if they accepted it they would become over-stretched and have insufficient funds to develop the advanced turbo prop project which looked particularly promising. He thought the company would authorise the go ahead for the A320 with launch aid of £220m. provided it was "super front end loaded" i.e. concentrated in the first three years. This could produce the result that launch aid exceeded what the company was actually spending in those years. Alternatively the offer could be increased by around £30m. The distribution of the two packages was as follows:-

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Total</u>
£m	62	73	86	29	250
£m	87	108	25	-	220

The Prime Minister said that your Secretary of State should, for the time being, maintain the offer of £220m. without conceding either additional money or improved front end loading. He should discuss a fall-back with the Chancellor. Of the two, she preferred the larger sum spread over a longer period. This package would put less pressure on public expenditure in the early years and would, in her view, be less vulnerable to pressure for still further improvement.

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.

S E C R E T

PRIME MINISTER

Mr. Tebbit is coming to see you for 15 minutes before the start of E(NI).

- (i) He will bring you up to date on A 320.
- (ii) He will seek your mind on "a very sensitive deal" which I believe is in the Middle East. His office are reluctant to provide details. Mr. Tebbit will expect one of two reactions:
 - (a) an instruction not to pursue it further;
 - (b) an instruction to talk to the Secretary of State for Defence and Foreign and Commonwealth Secretary about implications.

AT

ms

17 February 1984

CF - do you want?



FILE

kw

cc: NA

10 DOWNING STREET

THE PRIME MINISTER

16 February, 1984

Dear Mr. Powell.

Thank you for your letter of 12 February asking me to meet the officers of the Welsh Parliamentary Labour Group to discuss the A320 project. As you know, an announcement on this matter is likely to be made shortly. In any event I am afraid that I could not accept a commitment to meet particular groups of the Parliamentary Labour Party and if therefore you still wish for a discussion on this issue perhaps you could approach the Secretary of State for Trade and Industry.

Yours sincerely
Margaret Thatcher

Ray Powell, Esq., M.P.

kw



MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/GP/21/4

15 February 1984

Prime Minister

Dear Prime Minister

ms

A.F.C. 15/2

At the weekend I attended the Wehrkunde Conference on International Security which takes place annually in Munich. I took advantage of my being there to call on the Minister-President of Bavaria, mainly to discuss the role of the German aerospace industry, which is largely based round Munich, in the international collaboration planned for the Future European Fighter Aircraft; but inevitably the conversation turned to the A320.

I told Dr Strauss that we were close to a decision and that final negotiations with British Aerospace were in train. On launch aid I explained that we were sympathetic in principle but always took account of the financial contribution that the firm requesting the aid was prepared to make. Dr Strauss said that he understood our position, but he believed sales depended on there being a family of aircraft and that the prospects of exporting the A310 would be greatly improved if the A320 went ahead.

In conclusion, Dr Strauss asked me to thank you for your recent letter to him about the A320 and to pass on his warmest good wishes to you.

Yours sincerely

Geoffrey Pattie

The Rt Hon Margaret Thatcher MP



HOUSE OF COMMONS
LONDON SW1A 0AA

WELSH PARLIAMENTARY LABOUR PARTY

Our ref: RP/CH/WPLG.

12th February, 1984

The Rt. Hon. Margaret Thatcher, MP.,
Prime Minister,
10, Downing Street,
LONDON.

RIS

Dear Prime Minister,

I have been requested to write to you asking for an interview with Officers of the Welsh Parliamentary Labour Group together with Barry Jones, MP., to discuss the Air Bus Project.

I would be grateful if you could let me have suggested dates and times at the earliest opportunity.

Kind Regards,
Yours sincerely,

Ray Powell

Ray Powell, MP.,
Secretary.

520 ... cc 1/10
CONFIDENTIAL



[Handwritten signature]

PRIME MINISTER

I am afraid that I cannot attend E(A) on Monday to discuss the A320 due to an unavoidable prior engagement.

Although, as Environment Secretary, I now have no Departmental interest in this project, I did handle a good deal of the earlier consideration before the Election. Perhaps I may therefore offer some comments.

From the outset, it has been clear that British participation was always going to be no more than marginally profitable. I believe the main reason for this is that the extra costs involved in the kind of international collaboration represented by Airbus Industrie are very substantial as compared with the construction of a comparable aircraft by a single company such as Boeing. Sir Austin Price once hazarded to me the guess that the extra cost could be as much as 60%. This is not because components are fabricated in widely separate locations and then assembled at the final assembly plant; I am told that all the American manufacturers use this technique. The extra cost arises because of the delays and compromises inherent in a project where independent companies based in different countries and mostly relying on the support of their Government have to take decisions. The quite extraordinary system of costing that has been used hitherto by Airbus Industrie is simply evidence of the inability of the individual companies and their Governments to agree on anything better.

I believe that it is primarily this additional cost of research, development and design as well as the lower productivity records of most of the European companies which accounts for the poor profitability. Selling prices have of course to be competitive with American aircraft. The resultant squeeze

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on margins is what makes this a highly marginal project.

This has certainly always been recognised by the ^{GERMANS} Chairman. At the several meetings which I had with Count Lambsdorff, we were united in agreeing that we did not want "a political aircraft". By that, we meant that there was no point in our companies and our Governments pouring large sums of money into a project which was never likely to show a return. The paper suggests that the Germans are now moving more strongly in favour of A320 and had I been present on Monday I would have wished to press Norman Tebbit and Geoffrey Howe as to the reasons for this. Although the risk/reward ratio looks marginally better than it did 9 months ago, it is still very unexciting. As the Treasury point out, the real return could turn out to be nil. Moreover, British participation is not essential to the project. If we pull out, I am advised that this will not prevent the A320 going forward so that we will not have to deal with an American monopoly in this aircraft size range. If therefore these were the only considerations, I would be firmly against supporting the project.

I have to say however I have simply not been exposed to the political pressure to which you made reference at the end of Thursday's meeting. Pulling out will lead to job losses (5,000 upwards) in BAE and suppliers both directly and because the airbus consortium will not favour British sub-contractors. It can certainly be argued that these job losses will be offset by gains elsewhere in the economy as the money that would have been used on this project is spent elsewhere so I would not put too much weight on that. Again, withdrawal would certainly be taken badly by our European partners as another example of our less than whole-hearted Europeaness.

I suspect that the real issue will be what it always has

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been - whether or not the British aircraft industry is to retain a foothold in the large civil airliner market. Although, 2 years back, BAE still had the hope that it might prove possible to bid for 30% of the A320 and secure assembly in Britain (and so secure a much higher proportion of British components) this was abandoned back in 1982. We are now left only with the main wings and no doubt, because of participation, a chance for a good many component suppliers to get work.

Despite all the arguments to the contrary, which I have rehearsed, and subject to what may be said at the meeting, I believe that the political case for continuing must prevail. I believe that the Government simply would be unable to defend pulling our industry out of this market which seems bound to remain one of the growth areas in the world economy. Although the economic returns are less than attractive, I would come down on the side of those who would take the view that they are not so bad that this should be the over-riding consideration.

The real issue then comes down to quantum. What I believe the Government should aim at is a contribution not £1 higher than is necessary to persuade BAE to go ahead. As a private company they will have every incentive to keep the development and production costs just as low as they can and to secure the major improvements in productivity which the management knows can be achieved. Only Norman Tebbit and his Department are really in a position to know what this figure is, and as with the Rolls Royce engine I believe we should leave it to him. He should be asked to come back to us in any event before we either agree to pull out or settle the final figure for launch aid.

CONFIDENTIAL



I am copying this minute to members of E(A), Geoffrey Howe, Michael Heseltine and Sir Robert Armstrong.

A.H. Davis

for
P J

3 February 1984

*Approved by the Secretary
of State and signed in
his absence*



23 FEB 1964

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9 8 7 6



MB

10 DOWNING STREET

Prime Minister:

You will want
to look, in particular,
at the Chancellor of the
Duchy's minutes of 3
February.

Os



Chancellor of the Duchy of Lancaster

PRIME MINISTER

AIRBUS A320

1. I have now obtained the financial appraisal papers. They are based on the 1982 plan and it is admitted that serious errors have recently been unearthed. There is therefore an air of uncertainty about the figures.
2. The indication however is that, if BAe really believed its own statements, it could well afford to finance this project on its own. It would still be able to pay a dividend increasing at the rate of 10% per annum: it would still have a dividend cover exceeding $1\frac{1}{2}$ times: it would still have a much better gearing ratio than Rolls Royce.
3. The reasons given for the demand for launch aid in the face of these figures are that the reduction in the dividend cover from somewhat over 3 to $1\frac{1}{2}$ would damage the company's image: and that a debt/equity ratio of 50% to 75% (depending on how imaginative your arithmetic is) is unacceptable in an industry of this kind. (The corresponding Rolls Royce figure with launch aid reaches a peak of over 100%). The combination of these factors would mean, it is claimed, that the company would be unable to raise the finance needed.
4. The real reason I am sure is that neither BAe nor the City believes that there is any realistic chance of the Airbus project being anything like as successful as the projections they have produced would indicate. This as you know is the view I also take.
5. There is a further point which it is essential to make. The company's present equity base is much too small for the kind of

business it wants to carry on. It is in the final stage of development of the BAe 146, the development costs of which are alleged to have amounted to £400 m: it wants to embark on Airbus A320 with development costs plus working capital of £650 m: it is developing the ATP at a cost of £150 m and starting on the Agile Combat Aircraft. You simply cannot embark on this great clutch of major high risk developments in addition to your ordinary business on the present level of equity capital. Unless the Company is prepared to raise additional equity, it must either abandon some of the projects or it will go bust.

6. I believe that the political pressures - international as well as domestic - will compel us to support the Airbus project. If we can give a Japanese company £115 m to set up a minimal operation in this country how can we justify refusing to help a genuine, well established British enterprise? Against this background our objective must be to ensure that what money we have to give - and it is money the shareholders ought really to put up - is structured to our best advantage.
7. There are three possibilities which might be considered.

First. Operate on launch aid alone: give the Company the maximum suggested by DTI (£220 m) repayable by a levy on sales but with a minimum annual repayment and the total repayable irrespective of the outcome. This means that the equity risk would be shouldered by the shareholders who ought to carry it.

Second. Traditional launch aid, limited to £150 m and front end loaded. Company to be told to cover as much of the balance needed as they can by an equity issue on bonus terms which would enable us to sell off our rights.

Third. Give them the full £220 m launch aid suggested by DTI and on the back of the euphoria thus created sell our total shareholding which would cover the £220 m we were advancing in launch aid.

8. The difficulty with the first option is that if the company collapsed, the resulting problems would be appalling and the pressures on the Government to mount a rescue almost irresistible.

The difficulty with the second is that it might be difficult to set terms which allowed a sale of the rights so that we would be locked in.

My own choice therefore would be the third. It will I know be argued that the launch aid and the sale have nothing to do with one another and should be kept separate. This is not so. If we were to give launch aid and keep our shares we would have a double exposure and be shouldering a double share of the equity risk. By selling our shares we ensure that we carry only one share of the risk; and the balance is carried, as it should be, by the private sector - which is why we privatized the company in the first place.

A.C.

A C

3 February 1984



cc BT

PERSONAL AND CONFIDENTIAL

JH 770

PRIME MINISTER

DISCUSSION IN E(A)

May I ask for your help in the handling of the discussion on the two aerospace projects in E(A) tomorrow.

2 My first concern is that the discussion on the A320 should not squeeze out a decision on the V2500. The decision on Rolls-Royce co-operation with GE is urgent, and the prospects for what all agree will be beneficial to Rolls Royce will be jeopardised if the news of their prospective venture leaks. So much paper has now circulated that this must be a real risk, and I therefore believe it essential that we should do all possible to resolve this question tomorrow.

3 My other concern is also on confidentiality. If there is an agreement to support the A320 within a figure which will require subsequent negotiations with BAe, it is essential, if our negotiating position in relation to BAe is to be preserved, that there should be no leak that "the Government has agreed in principle to support the A320". I think this would be very damaging indeed.



4 I shall be making both these points in the discussion,
but I should be very grateful for your support in
underlining them.

NT

N T

1 February 1984

Department of Trade and Industry

cc Aerospace: Jan 84
Rolls Royce V2500



W.098

1 February 1984

MR ANDREW TURNBULL

E(A) MEETING ON A320 AND V 2500, 2 February

- Attached is my brief for the Prime Minister on the technological aspects of the A320 and V2500 decisions. As you know, I have attended some of the previous Ministerial discussions on these subjects and I am of course willing to attend tomorrow's E(A) if the Prime Minister wishes me to. I have spoken about this with Peter Gregson who suggested that you might ask the Prime Minister whether she wishes me to attend, at the same time as you send my brief to her. It's hard to predict how strongly technological aspects will feature in the discussion but the Prime Minister did make clear after the British Aerospace and Rolls Royce presentations that she felt that technology was a major component of the decision.

As I say in my brief, Bob Young and I have visited a number of BAe and RR facilities over the last few weeks to inform ourselves on the technology, but I understand that Bob will not be present at tomorrow's meeting. This may increase the need for me to be there.

Perhaps you could let me know first thing tomorrow morning whether or not the Prime Minister wishes me to attend.

MBN

ROBIN B NICHOLSON

RESTRICTED

W.097

1 February 1984

PRIME MINISTER

TECHNOLOGICAL ASPECTS OF THE A320 AND V2500 DECISIONS

At the British Aerospace and Rolls Royce presentations last November, you indicated that the technological aspects of the Airbus A320 and IAE V2500 decisions were important. I have therefore taken steps to inform myself better on the technology of these, including visiting appropriate BAE and Rolls Royce facilities. I summarise my views below. I have also found that the location of the proposed European Transonic Wind Tunnel is relevant to the A320 decision and comment on this as well.

A320 - wing

2. The wing of a modern large civil aircraft is the part of the airframe which is most critical in determining the aircraft's performance in terms of range, speed and fuel consumption - and hence its saleability. Wing performance is improving on average by about 1 per cent per year and an advantage of a few per cent over a competitive aircraft can be conclusive.

3. The design and manufacture of a wing involves complex and sophisticated techniques of stress analysis, computer-aided design, structure damage tolerance and failure analysis, metal machining and forming, composite materials, and assembly technology. British Aerospace's capability in these technologies is first rate. It is comfortably ahead of the rest of Europe (although Germany is making a strenuous effort to catch up) and fully competitive with American companies such as Boeing. There is therefore no question that the British Aerospace wing is high technology of world class.

RESTRICTED

4. There is also some spin-off from this technology but it is limited to small sectors of industry and British Aerospace is not the only source. I do not believe that technology spin-off is a significant part of the case for going ahead with the A320.

A320 - European Transonic Wind Tunnel

5. If British Aerospace is given the go-ahead on the A320 wing, it will be essential that it maintains its competitive position in the future by appropriate R & D. A key facility for this will be the proposed European Transonic Wind Tunnel which is being considered by the UK, Germany, France and Holland. So far the UK has not made a strong bid for the facility to be located in this country, partly because of valid but parochial objections from MoD (the obvious location would be the MoD establishments at Farnborough or Bedford) and partly because of uncertainty about the A320 programme.

6. If we do go ahead with the A320, we must try to safeguard the benefits for the medium and long term future. I therefore recommend that DTI be asked to make a further attempt to locate the European Transonic Wind Tunnel in the UK or, if that proves impossible, on "neutral" ground in Holland. And that MoD be asked to override their own objections in the interests of the strength of the UK's aerospace industry as a whole.

V2500 engine

7. Rolls Royce have traditionally had a major technological capability - larger, for the size of the company than any of their competitors. They are world leaders in several critical technologies in aeroengine design and manufacture: blade aerodynamics, metal fabrication techniques (especially cooled blades), high temperature materials, non-destructive testing of components and noise reduction. The quality of Rolls Royce's technology has undoubtedly helped them to bargain an equal share with Pratt and Whitney for the V2500 engine.

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8. The nature of Rolls Royce's technology is such that there is substantial spin-off to other parts of UK industry in areas such as new materials (especially for use at high temperatures), turbo-machinery, high speed lubrication, non-destructive testing techniques and advanced manufacturing technology. Rolls Royce has plans for better and more profitable spin-off for its technology.

9. Thus I believe that both Rolls Royce's technology and its spin-off contribute substantially to the case for going ahead with the V2500.

10. I am copying this minute to Sir Robert Armstrong.

RBN

ROBIN B NICHOLSON
Chief Scientific Adviser

- 3 -

Cabinet Office
1 February 1984

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P.01216

PRIME MINISTER

The Airbus A320 Project

(E(A)(84)4 & 5)

BACKGROUND

British Aerospace (BAe) is a 20 per cent partner in Airbus Industrie (AI), the European consortium which produces the A300 and A310 wide-bodied aircraft; the other main partners are French and German. AI proposes to launch a new aircraft, to be known as the A320: orders have indeed already been taken from a number of airlines, including British Caledonian. BAe wishes to take part in the A320 and has applied to the Government for launch aid to cover the whole of its development costs: these would amount to some £460 million spread over the period between now and 1991.

Flag A

2. The note attached to E(A)(84)5, which I have prepared as Chairman of the Official Group on Aerospace, summarises the main considerations affecting this application, brings out the common ground and areas of difference among departments, and identifies the issues for decision by Ministers.

Flag B

3. In his memorandum (EA)(84)4, the Secretary of State for Trade and Industry recommends that the Government should back the project, but that launch aid should be provided on a smaller scale than requested by BAe. He seeks authority to negotiate assistance of up to £220 million; he would consult the Chancellor of the Exchequer as negotiations proceeded about the terms of the assistance and its repayment. Mr Tebbit argues that the UK should not pull out of this section of the civil aircraft market, as would be the consequence of a failure to

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participate in the A320; and that although the likely rate of return on the project is "comparatively poor" and "low compared to the risk involved", participation is justified when wider industrial and political considerations, including the effect of failure to participate on our relations with the French and German governments, are taken into account.

4. The Chief Secretary, Treasury is opposed to participation.

Flag C
In his minute of 31 January, he argues that the prospective rate of return is inadequate; that backing the project would make it much harder to resist the claims of other industries looking for Government support; that there is little likelihood of valuable technological "spin-off"; and that there is little relationship between the A320 and the V2500 engine.

MAIN ISSUES

5. The issues before the Sub-Committee are as follows:

i. Should the UK, through BAe, participate in the A320?

ii. If so, should launch aid be offered? Of what amount and on what terms?

iii. How and when should the Government's decision be made public?

Should we participate in the A320?

6. As paragraphs 6 and 7 of E(A)(84)4 - and, in more detail, paragraphs 1.9 to 1.13 of E(A)(84)5 - show, it is not in dispute that, taken in isolation, the prospective financial return on the A320 is not satisfactory, especially bearing in mind the risky nature of the project and its long pay-back period.

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7. It would no doubt be possible to argue at length about the most likely "central estimate" of the rate of return. Mr Tebbit suggests that it is "around or marginally below 5 per cent" but this rests on an assumed dollar exchange rate (\$1.50 : £1) which many, including BAe themselves, would regard as optimistic. It also assumes achievement of a 19 per cent improvement in production efficiency; MoD(PE) regard this as attainable by BAe but it remains a risk. The Chief Secretary suggests that the "more probable outcome seems likely to be no more than zero and it would not take much to cause the return to become negative". But this rests on a lower sales estimate than the DTI's (450 rather than 600) which many would regard as unduly pessimistic; and he also implies some risk of cost escalation on the development programme whereas MoD(PE) consider any serious overrun at the development stage as unlikely since this programme derives mainly from existing techniques.

8. The Sub-Committee may therefore feel that the best assumption, against a background of inevitable uncertainty, is that the rate of return will be somewhere between the figures deployed by Mr Tebbit and the Chief Secretary, ie a small positive return, considerably less than 5 per cent. Since this is inadequate, the decision must turn on the strength of the wider considerations.

Wider considerations

9. The main wider considerations are:
- a. implications for civil airframe manufacture;
 - b. technological "spin-off";
 - c. international implications.

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Implications for civil airframe industry

10. It seems clear that if BAe failed to participate in the A320, the eventual outcome would be withdrawal by the UK from the design and development of large civil airframes. The UK would be taking a different view from several of our main industrial competitors, including France, West Germany and Japan who are seeking to increase their capability in this area.

11. On the other hand, civil aircraft projects and civil aircraft manufacture have an unhappy history. The BAC1-11 and the Hawker Siddeley Trident were the last British aircraft intended for the main airline routes; neither is believed to have made money. The Douglas Aircraft Corporation went bankrupt and had to be taken over by McDonnells; the amalgamated company got into serious trouble with the DC-10, and there is some doubt whether it will continue in the civil market. Even Boeing nearly went bankrupt over the 747. AI has won its present market share, in large measure, through subsidies from the French and German governments. On the face of things, the manufacture of civil aircraft should be an industry of the future, but its record to date is not encouraging.

12. It may be suggested that even if BAe did not participate in the A320, the UK would still be free to get future sub-contracting work, like Shorts on the B747 and 757. That is no doubt true, in general terms. But it is almost certainly not true of the A320. Hawker Siddeley were sub-contractors on the A300. The French and Germans resented that fact and were adamant during negotiations on the A310 that sub-contractor status on that aircraft was not open to BAe. They would be almost certain to take a similar line on the A320.

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13. If BAe were to withdraw from large civil airframe manufacture, there would remain the smaller end of the civil market in which the BAe146 is now competing and the ATP (Advanced Turbo Prop) project might give BAe a presence in the future. Arguably it might be a more realistic strategy to concentrate future efforts in that sector but it should be borne in mind that BAe would be more exposed to competition in the smaller aircraft from the newly industrialised countries.

Implications for the rest of the aerospace industry

14. If the UK were to withdraw from the manufacture of large civil airframes there would inevitably be consequences for our civil aircraft equipment industry. Participation in the A320 will not guarantee equipment orders: British firms will still have to be competitive. But experience on previous AI programmes indicates strongly that if BAe do not participate in the A320, UK equipment manufacturers will stand little or no chance of substantial orders from AI. The DTI have not been able to quantify the business which might be at risk. It could be argued that the loss of a UK presence in the mainstream of civil airframe manufacture is something which UK suppliers ought to face up to sooner rather than later. But a Government decision not to back the A320 would undoubtedly be badly received in the equipment industry.

15. The implications for aeroengines are less important. As the Chief Secretary points out, the success of the V2500 does not depend to any great extent on the A320. My note (E(A)(84)7) on the V2500 makes clear (paragraph 1.5) that the major part of the assumed sales of that engine are in US airframes. Moreover engine selection rests with the airlines.

See Item 2
on Agenda

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Technological "spin-off"

16. Dr Nicholson will be letting you have a separate note on the technological aspects of the A320 and V2500. Although the Chief Secretary is wrong to suggest that wing development is not a high technology activity, it is true that participation in the A320 is unlikely to yield any substantial technical spin-off.

International implications

17. Although there are some wider economic considerations arguing in favour of the A320, many Ministers may find them insufficient to tip the scale. In addition however there are some wider international political considerations of which you are well aware. The French and Germans would undoubtedly regard refusal to participate in the A320 as a serious rebuff, and as confirmation of what they allege is the UK's "non-Community" attitude. The considerations are set out at length in paragraphs 12 and 13 of E(A)(84)4 and paragraphs 2.5 and 2.6 of E(A)(84)5. Although the UK could argue that the test of commercial viability, which we have consistently emphasised, has not been met, the French and Germans are most unlikely to agree with us.

Launch aid

18. If Ministers decide that the UK should participate in the A320, it will be necessary to decide the terms and amount of launch aid. It is not in dispute among departments that launch aid on a substantial scale will be needed, but that in order to ensure that BAe itself has a proper stake in the success and efficient management of the project, launch aid should not be provided on a scale greater than about 50 per cent of total launch costs. There is also (see Section III of E(A)(84)5)

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much common ground about the terms and conditions of launch aid and its recovery.

19. The main issue before the Sub-Committee is likely to be the quantum. Mr Tebbit asks for authority to go up to £220 million; the Chief Secretary, Treasury is likely to be advised to argue for about £185 million (40 per cent of total launch costs). The Sub-Committee may well feel that if the political and other considerations outlined in the papers justify UK participation at all, it would not be wise to constrain Mr Tebbit's negotiating room too tightly for the sake of (at most) £35 million. The advice of Morgan Grenfell (report circulated under cover of a letter from Mr Tebbit's private secretary of 31 January) is that BAe would be unlikely to proceed on the basis of launch aid much less than 50 per cent, but should be willing to go ahead if launch aid of around 50 per cent were made available.

20. The Morgan Grenfell report also suggests a way of channelling the launch aid to BAe through a private sector company with Government guarantees. Although this would reduce public expenditure in the short term, it would increase the costs to the Government, and it is unlikely that the Treasury would see any advantage in this approach. If anyone sees merit in the Morgan Grenfell proposals, it would be better for Mr Tebbit and the Chief Secretary to pursue it outside E(A). It should not be allowed to complicate the main decision on whether the Government should support the project.

Announcements

21. Although the matter of announcements is not discussed in E(A)(84)4, the Sub-Committee will need to address it. There will be strong pressure for an early statement of the Government's view from AI, BAe and the French and German

He hinted yesterday at coming back to E(A) for £30 million & BAe do not accept £220 million.

Flag D
No need to read this.

Use of guarantees to avoid public expenditure is a dangerous game

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governments; and there are in fact good industrial and commercial reasons for such an announcement, since it will enable AI to finalise work sharing arrangements and to present prospective airline customers with an aircraft about whose future there is no doubt. On the other hand, once it became known that the Government had decided to back participation by BAe, it would be hard to negotiate a satisfactory deal on launch aid. The Sub-Committee will probably feel that the right course is to try to reach agreement with BAe on the main points, though not necessarily every detail, and until such agreement is reached (if it is) to make no announcement and to maintain the line in public that the project is still under discussion with the industry.

See M. Tebbits
personal minute

HANDLING

22. You will wish to invite the Secretary of State for Trade and Industry to introduce his memorandum; the Chief Secretary, Treasury might then be asked to reply. The Foreign and Commonwealth Secretary will be able to advise on international aspects. The Secretary of State for Wales has a departmental interest, since BAe's main Airbus factory is just over the Welsh border from Chester. The Minister of State, Ministry of Defence (Mr Pattie) is attending in the absence abroad of the Secretary of State for Defence.

CONCLUSIONS

23. You will wish the Sub-Committee to reach conclusions on:

- i. whether the UK, through BAe, should participate in the A320 project;

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ii. if so, what maximum amount of launch aid should be offered to BAe and on what terms;

iii. announcements.

PLG

P L GREGSON

1 February 1984

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Prime Minister (2)
To note



FROM: THE CHIEF SECRETARY
DATE: 31 January 1984

PRIME MINISTER

cc E(A) Members

LAUNCH AID FOR THE A 320

We are to discuss Norman Tebbit's proposal to give launch aid for the A 320 on Thursday at E(A). To do so Norman suggests would be inconsistent with our general policy and I thought that I should put on record that I am opposed to providing any assistance.

The plain truth is that the A 320 on the most likely central assumptions is not a commercial proposition. Even on the optimistic revenue and cost forecasts that Norman is putting forward the project falls below the 5 per cent real return test. The more probable outcome seems likely to be no more than zero, and it would not take much to cause the return to become negative.

I have in mind two main reasons for these doubts. First, it seems to me the calculations are based on optimistic views about likely cost developments. There are technical hurdles still to be overcome and experience, anyway on projects of this kind, normally shows unexpected cost escalations. But since the A 320 will be facing a dollar price fixed by Boeing, and I suspect at a time when the effective dollar exchange rate is weakening, it will not be feasible to pass these increases through into prices. Second, Boeing's selling competition is aggressive and has a record of success. I cannot see A 320 sales achieving anything like a sufficient level of sales (800 at least would be needed) to achieve an acceptable return.

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Norman nevertheless believes that we should accept the prospect of these disappointing returns to maintain a foothold in the international civil aviation industry and to preserve capacity for that purpose in this country. This raises some wider issues. To assist a project which is so commercially doubtful would be hard to reconcile with our general stance on Government assistance to industry. We have taken the view in the cases brought to our notice that there is no point in trying to preserve capacity and jobs in loss making industries. In the end this will only result in lost jobs elsewhere, and will undermine our economic performance. Moreover, to agree to support this project may make it much harder to resist the claims of other industries looking for Government support. So the cost to public expenditure of a wrong decision on the A 320 could turn out to be much more than the £220 million we are being asked to agree.

I am also unimpressed by the argument sometimes advanced for supporting loss making civil aerospace projects of technological spin-off to the rest of the economy. I am advised that wing development is not a high technology activity and that there would be little spin-off to the rest of the economy. I know that Robin Nicholson takes this view. Indeed it may be that the skilled labour which would be involved in developing the A 320 wing would be better employed in some other activity with a higher technological content and a better prospect of profitability.

Finally, I am sceptical of the argument that we must support the A 320 in order to maximise the V 2500's chances of being selected for the A 320. Engine selection for the aircraft will be made by the airlines and, although the French will try and push the claims of the CFM56, several airlines, such as British Airways, have said that there would be no point in purchasing a new technology aircraft unless it had a new engine in it. Furthermore, I question the extent to which the French could get away with discrimination against the V 2500 in commercial offers to airlines. The Germans, who will be partnersⁱⁿ the A 320, and the Italians, who may be, are also participants in the V 2500 and will press the case for the V 2500. There is also the point that if Airbus hope to sell

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their aircraft in Japan and the USA they will not improve their prospects by blackballing an engine which will have more than a 50% Japan/USA content.

I am copying to E(A) colleagues.

A handwritten signature in blue ink, appearing to be 'PR' with a small flourish at the end.

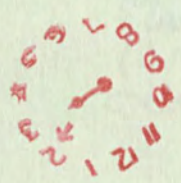
PETER REES

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CONDOR



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SECRET AND PERSONAL

File.

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downgraded
NR '13



Sec 29/2/84

10 DOWNING STREET

From the Private Secretary

31 January 1984

Dear Callum

I attach a copy of the note of the discussion which your Secretary of State had with the Prime Minister after Sir Austin Pearce had left. I leave it to you to decide how widely to circulate it.

Yours sincerely

Andrew Turner

Callum McCarthy, Esq.,
Department of Trade and Industry.

SECRET AND PERSONAL

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SUBJECT

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NOTE FOR THE RECORD

c. Master Set

A320

After Sir Austin Pearce had left, the Secretary of State for Trade and Industry told the Prime Minister that he had received a visit over the weekend from M. Etienne Dreyfus, a senior official at the French Ministry of Transport. The latter said he had come to talk about the Airbus with the knowledge of his Minister, M. Fiterman, on instructions from the President. The French Government had decided that management of Airbus Industrie was weak. They were proposing to replace the present Chairman with the President of Air France, M. Girardoux. It was thought that the latter, though not popular with the trade unions, was accepted across the whole political spectrum in France and would therefore survive any change of administration. M. Dreyfus said he hoped Britain would nominate a Financial Director for the Consortium. The Secretary of State for Trade and Industry said that BAe were not themselves strong in this area and would be unable to provide a candidate. It would be necessary to look outside the industry. He was greatly encouraged by these reports.

M. Dreyfus went on to say that Air France had stipulated in its contract for the A320 that it could replace the CFM56 engine with the new Rolls Royce engine when it became available. Though this might be a move to put pressure on GE to improve their engine it was unlikely that they would be prepared to do so.

The Secretary of State for Trade and Industry said that he had known M. Dreyfus for some time and believed him to be reliable.

The discussion then turned to the meeting of E(A). The Secretary of State for Trade and Industry said he was seeking agreement to an offer of £220 million as launch aid for the A320. This would be just under 50%. The Treasury were opposing anything in excess of £185 million. He was hopeful that agreement might be reached with the company if this amount of launch aid were front end loaded. He was also seeking repayment related to BAe's results

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generally. He would however be seeking agreement that, if negotiations were unsuccessful, he could return to E(A) and seek agreement for an additional £30 million.

On Rolls Royce the Chief Secretary had offered £40 million whereas he was seeking £96 million. One consideration was that the balance sheet of Rolls Royce was at present very highly geared. A more generous offer of launch aid would increase the chances of bringing the balance sheet to a condition where the company could be sold.

AT

31 January 1984

CONFIDENTIAL

SUBJECT
c. MASTER
SET



no MFS.

c. Bob Young
MA

10 DOWNING STREET

From the Private Secretary

31 January 1984

Dear Callum,

A320 Airbus

Sir Austin Pearce called on the Prime Minister to set out the background to BAe's application for launch aid. Also present were your Secretary of State and Mr. Alison.

Sir Austin said he had asked for the opportunity to talk to the Prime Minister because his earlier presentation had been rather rushed and he was anxious that Ministers should understand fully his company's thinking. He was disturbed because it appeared that some Ministers might be under the impression that the company had asked for 100 per cent funding of the total project. It was true that the £440m. of launch aid covered the cost of design, jigs, tools and education. The company would, however, be covering the cost of additional work in progress which amounted to about one-third of the total cost of the project. He contrasted the two-thirds which BAe was therefore seeking with the 90 per cent of the total project cost which the German partners in the Consortium were likely to get from their Government.

He explained why launch aid was required. Over the past four years work in progress had increased from £500m to £1.35b. and the company was now reaching the limits of its ability to finance new projects. Profits could make only a limited contribution, partly on account of high redundancy costs, £40m in the current year. He did not think the company was in a position to increase its borrowing.

/His Board

His Board had considered making a rights issue but had concluded against this for a number of reasons. First, the share price was already low. Secondly, it was thought that a rights issue would reduce the price of the shares by around 20 per cent. Not only would this knock £40m off the value of the Treasury's holdings but it would have a severe impact on the 50,000 employees holding shares in the company. Finally, the dividend covered on an expanded equity would be very low between 1986 and 1988. The need for Government funding was particularly acute in the early years.

Sir Austin said that discussions were taking place on how launch aid might be structured in order to reduce the call on Government. It might be possible to work with a lower figure if it were phased more towards the early years. He was also prepared to consider repayments related not simply to sales of the A320 but to the company's results more generally.

If the Government offered substantially less than 100 per cent launch aid he would have to discuss the position with his Board. There would be two alternatives; a decision not to proceed or a decision to go ahead in the knowledge that the company might run into trouble in later years and have to return to Government. In his view the second approach was unacceptable.

The Prime Minister commented that even with substantial sales the rate of return would be low. Sir Austin accepted this though he believed the assumptions of market penetration in the US, 12 per cent, and outside the US, 30 per cent, were not unrealistic. The Secretary of State for Trade and Industry said he was reasonably confident about the projected size of the market, most of which was based on replacement demand. It was significant that McDonnell Douglas were considering abandoning further developments of their own aircraft and were considering becoming associated with the Airbus Consortium. There would be advantages in this as it might help open the US market. Sir Austin said he was concerned about financial control within Airbus Industrie. With a 20 per cent share, BAe had an effective veto but found it difficult to initiate proposals. All too often he found that the Germans failed to support ideas for improving financial control. The Prime Minister suggested that this was a matter which could be taken up with Chancellor Kohl.

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.



File

10 DOWNING STREET

Mr Redwood Mr Young. - the
AT.

I do not propose to show this
to be Prime Minister. She
has enough paper already.
But you might like to see.

A typical merchant banker's
solution if I might say
so.

AT 31/11

Usual begging bowl for a fee!

R

Rose - Could you pl.
return to Andrew T.

Thanks.

Ry.



JH 747

PS/ Secretary of State for Trade and Industry

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

31 January 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

THE AIRBUS A320 PROJECT

My Secretary of State's memorandum of 24 January to E(A) (E(A)(84)4) included a reference in paragraph 10 to a report on the A320 project prepared by Morgan Grenfell and Company Limited. Although the point referred to - that BAe should be prepared to bear the risks on up to about 50% of the development and launching costs - is the only one which we feel it is important should be gleaned from the report for the purposes of discussion in E(A), for the sake of completeness I attach a copy of the report from Morgan Grenfell for your information.

2 I am sending copies of this letter and of the report to the Private Secretaries to other members of E(A) and to the Cabinet Office Secretary to E(A).

Yours ever,
A. D. Lansley

ANDREW D LANSLEY
Private Secretary

REPORT ON FINANCING OF A320
DEVELOPMENT AND LAUNCHING COSTS

Summary of Conclusions

1. The risks associated with, and the return expected from, the A320 project will not enable finance to be provided without recourse to either the Government or BAe.
2. BAe, if they believe in the Project, should be prepared to bear the risks on up to about 50 per cent. of the development and launching costs.
3. Private sector finance would be available to BAe for this proportion of the development and launching costs.
4. Private sector finance would be available for the balance of the development and launching costs, given a Government guarantee, and we have suggested a structure which would achieve the Government's objectives.

→ Government finance by another name

REPORT ON FINANCING OF A320
DEVELOPMENT AND LAUNCHING COSTS

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Appendix 1 Brokers' and other comments on expected level of launch aid

Appendix 2 Interest costs of launch aid funding

I. Introduction

I.1 Terms of reference

In a letter dated 30th December, 1983 from the Department of Trade and Industry ("DTI"), Morgan Grenfell & Co. Limited were appointed to advise the DTI in connection with the financing of the development and launching costs of the Airbus A320 project ("the Project") of British Aerospace PLC ("BAe") and to prepare and present proposals for the involvement of private sector finance in the funding of the costs in accordance with our proposal dated 12th December, 1983.

At subsequent meetings with officials of the DTI and with Mr. Jeffrey Sterling, adviser to the Secretary of State for Trade and Industry, we established that we are required to consider the following matters:-

- (a) the methods by which Government support could be provided;
- (b) the methods by which private finance could be raised to finance the Project; and
- (c) the extent to which BAe itself could finance the Project.

Although we comment below on the risks associated with the Project and the rate of return expected, we have not considered whether the direct and indirect benefits of the Project justify the decision that BAe should participate in the development and manufacture of the A320 nor have we considered the consequences of BAe not so participating. We do, however, consider in Section IV.1 below whether BAe, as a publicly quoted company, can justify participation in such a major project without considerable outside support.

I.2 Sources of information

Our report is based on the information regarding the Project contained in the following documents:-

- (a) a letter dated 8th September, 1983 from Sir Austin Pearce, Chairman of BAe, to the Secretary of State for Trade and Industry requesting formally that the Government provide launch aid to BAe in accordance with the provisions of the Civil Aviation Act 1982;
- (b) the Project assessment prepared by BAe, dated September, 1983;
- (c) BAe's Long Term Forecast, dated November, 1983, including financial projections for the next ten years; and
- (d) the annexes to a draft report to the Secretary of State for Trade and Industry from the DTI, including an Assessment of the Project prepared by the Industrial Development Unit ("IDU") of the DTI, dated 19th December, 1983.

In addition we had meetings with officials of the DTI and the IDU and with Mr. Jeffrey Sterling, both to clarify our terms of reference, as mentioned above, and to discuss their respective views of the Project and the assumptions underlying it and their views about the nature and extent of private financing. We also met officials of the Treasury to discuss their views concerning the amount and type of financing which might in principle be provided by the public sector.

We also met Mr. Bernard Friend, Director of Finance of BAe, to discuss various matters in relation to BAe's projections and its finances and the effect on BAe's accounts of the various proposals discussed in this report.

We have adopted the assumptions made by BAe and reviewed by the DTI concerning the numbers of aircraft which might be sold and sales prices, and the total amount of finance required by the Project and the timing of those requirements. For the purposes of assessing the extent of the risks to be borne and the return to be earned by the providers of finance, we have carried out sensitivity analyses on the basis of the figures supplied by BAe.

II Background

II.1 Airbus Industrie

The A320 project has been planned, and is to be carried out, by Airbus Industrie ("A.I.") in which the partners are the French government-owned company Aerospatiale, the German company Deutsche Airbus (a wholly-owned subsidiary of Messerschmidt - Buelkow - Blohm, which has mixed public/private shareholding), each with a 37.9 per cent. interest, the Spanish company CASA, with a 4.2 per cent. interest, and BAe with a 20 per cent. interest. We understand from newspaper reports that the two principal partners both receive substantial Government help towards launch costs:-

- Aerospatiale receives French Government loans to cover development costs, with regular repayments, including interest, linked to Airbus deliveries.
- Deutsche Airbus receives interest-free loans from the German Government to cover development costs, with repayments deferred to the 1990s; and also Government guarantees of loans raised to fund a major part of production costs.

It is proposed that the partners in A.I. will each act as sub-contractors to A.I. for part of the A320 project. BAe's responsibility would account for about 26 per cent. of the complete airframe, although the allocation of some elements to other participants such as Belairbus and the Australians would reduce this share to about 22 per cent. Each partner would make profits or losses both on its share of the work and from its share of A.I.'s overall return. The return from the work undertaken under sub-contract to A.I. would depend on the subcontract terms, the cost of manufacture and the volume of sales of the A320. The achievement of A.I.'s sales targets will depend not only on the commercial environment faced by A.I., but also on whether all the partners meet their technical and production targets, and whether the costs are compatible with a realistic sales price. The overall return to A.I., to be shared between the partners, will also depend on these factors.

To a large extent the returns to BAe will depend on the terms negotiated with its partners in A.I. for the sale of the parts manufactured by BAe, as well as the

terms agreed by the other partners. We understand that little progress has yet been made in negotiating these terms. This introduces a further element of uncertainty into the evaluation of the Project. The success of the Project depends on the technical performance of the other parties and the decisions associated with the A320 project are only partially under BAe's control. These factors increase the risks associated with the Project and this must influence the subjective judgement as to whether the rate of return to BAe is adequate.

II.2 BAe's proposal

In September, 1983 BAe put forward the proposal that the Government should give launch aid to meet all the development and launching costs of its share of the A320, which were estimated at £461 million (at outturn prices) over a period up to 1989. This aid would be repaid by a levy on sales under which, on BAe's projections, the Government would recover its outlay by 1996 and thereafter receive continuing levy payments which would give the Government an overall real rate of return of about 1 per cent. before financing costs.

II.3 The Government's priorities

It has been indicated to us that the Government is concerned that the Project should only be undertaken on a basis which gives BAe-and as far as possible its partners - the maximum incentive to carry it out economically and in accordance with projections. To this end the method of financing should be designed to impose a financial discipline on BAe's participation in the Project and should be seen to place a major part of the risk within the private sector. The Government is also concerned that its support should be reduced to a minimum.

II.4 IDU review

The IDU has carried out an assessment of BAe's proposals and has suggested that the DTI's negotiating position should be to offer launch aid at the rate of 40 per cent. of BAe's total development and launching costs, phased so as to give a net present value of 45 per cent. aid prorata to the costs as incurred. The terms of the levy would be designed to provide repayment of the launch aid with a 2 per cent. real rate of return (before financing costs) on base case assumptions and substantially more if and when a greater number of aircraft were sold.

III. Return on the Project

BAe has prepared cash flow forecasts for the Project using a number of different assumptions, in particular allowing in some cases for sales of the A320 to continue for five years beyond 2002. We have done no more than discuss the assumptions underlying these forecasts since we are not in a position to be able to make an independent estimate of market size and market share nor of the launch and production costs that are clearly fundamental to the viability of the Project. The BAe 'base case' project, which takes into account costs and revenues over the period 1983 - 2002, assesses the real rate of return pre-interest and tax at 4.2 per cent. (4.7 per cent. if the period is extended to 2007), and has a requirement for cash (including cash for production costs) exceeding £200 million between 1986 and 1993, peaking in 1989 at £423 million (at 1983 prices).

The IDU has investigated BAe's case for receiving launch aid and in so doing has assessed the viability of the A320 project. Its conclusion was that the real rate of return on the Project did not meet any normal commercial criteria and, indeed, there must be a significant probability that even this estimated level of return would not be reached. At current real interest rates the expected return on the Project would be insufficient to cover the costs of the required finance.

The rates of return calculated by BAe and quoted above are derived from the estimated cash flows of the Project considered in isolation. The actual returns to BAe when considering the incremental effect of undertaking the Project may be very different as the full costs and benefits of the decision to proceed with the Project are not reflected in the assessment. Such effects could include the contribution of the Project to overheads and the reorganisation and redundancy costs that might be incurred if the Project was not undertaken, as well as intangible benefits of retaining and developing the expertise necessary to ensure BAe's continuing presence in the civil aircraft market.

It has been suggested that it may be possible to raise finance from the private sector without recourse either to BAe or the Government and having a return based on the success of the Project. However, the low projected rate of return on the base case is almost certainly insufficient to provide repayment of the principal and interest on commercial borrowings. In view of this and the high risks associated with the Project, we do not consider that any significant proportion of the costs could be financed in this way.

IV. BAe's ability to finance the Project and sources of finance

IV.1 BAe's ability to finance the Project

Whatever the expected rate of return on a project, such rate is only one of a number of factors to be taken into account when the board of a company is deciding whether to proceed with it. Other factors include:

- (a) the size of the investment and the amount of risk compared with the total resources of the company;
- (b) the effect on the company's balance sheet and profit and loss account not only at the end of the project but at all times while it is in progress;
- (c) the effect on the company's image with shareholders, lenders and customers and the view of the company taken by competitors; and
- (d) the effect on other activities which the company may wish to undertake.

We believe that, irrespective of the question of finance, it would be inappropriate for BAe to bear the whole of the risks associated with a project such as the A320. A commitment to launch costs expected to amount to £461 million and a peak projected negative cash flow of £563 million on this project (based on inflation at 8 per cent.), with BAe bearing all the risks, seems inappropriate given BAe's shareholders' funds estimated to be around £750 million at 31st December, 1983.

The IDU in its review of the Project has calculated gearing ratios and dividend cover ratios for various levels of launch aid. Under the assumption of no launch aid, gearing (defined as borrowings as a percentage of shareholders' funds) rises to a peak of 73 per cent. in 1985 (ignoring the significant contingent liabilities such as bank guarantees, sales finance resource and forward currency transactions) and remains around that level for four years; dividend cover falls as low as 1.2 times in 1985 and is around 2.0 times for four years. For a company with a number of high risk projects this level of gearing would be imprudently high and the low level of dividend cover would leave the dividend vulnerable to any shortfall in projected profits. The comparable ratios for the 50 per cent. launch aid case are gearing reaching a peak of 58 per cent. in 1985 but otherwise not exceeding 46 per cent. and dividend cover falling to 2.4 times in 1984 and 2.2 times in 1985 but otherwise being in excess of 3.0 times. These ratios should be considered as acceptable but not excessively prudent. The 50

per cent. accelerated launch aid case calculated by the IDU provides slightly more adequate ratios.

In addition to the question of the size of the investment and the amount of risk, consideration of the other factors mentioned above suggests that BAe's board would be unlikely to proceed with the Project without some Government assistance. We agree with the IDU that 50 per cent. launch aid on an accelerated basis would allow these other factors to be satisfied. We would also expect the board of BAe to regard the investment and risks involved in the Project with this amount of launch aid as acceptable (subject to agreement about the rate of levy), although this is less certain as it will depend on their view about the fundamental importance of the A320 to BAe's future and their confidence in their own assessment of the Project.

IV.2 Sources of finance

BAe has a number of methods open to it for financing the Project; the most appropriate method will depend on the level of launch aid or other Government assistance and on other calls on BAe's resources which may arise over the life of the Project. BAe may decide to raise finance specifically for the Project or to finance it out of its general resources. We review below a number of possible sources of finance.

IV.2.1 Rights issue

BAe's share price has recently been strong and at current levels a rights issue could probably be arranged to raise an amount approaching £100 million. However, one factor influencing the strength of the share price has been the belief that the Government will provide at least half and probably substantially more of the finance required to develop and launch the A320 (see Appendix 1). An announcement that the Government was going to provide substantially less support than the market expected would harm the share price and make a rights issue very much more difficult. Shareholders would not willingly put up substantial amounts of money for a project with such a low projected return (which may, of course, not be achieved) and, more importantly, which would involve BAe in such a substantial amount of risk.

However, if the Government does provide launch aid to the extent generally expected, there would be a possibility of BAe providing part of its share of the

costs by way of a rights issue. BAe itself may not regard this as an attractive option unless there is a substantial further re-rating of the shares which, even following recent strength, stand at only 6.5 times historic earnings.

A further complication involved with a rights issue is the Government's own shareholding. If it did not wish to subscribe further cash, its proportion of the new shares would have to be sold which would increase the strain on the market.

The Government should take into account that if the market's view of BAe is damaged, either as a result of a rights issue in the wrong circumstances or a failure to provide the expected launch aid, the value of the Government's holding in BAe could be depressed for some time to come.

IV.2.2 Debt markets

BAe should be able to raise up to £100 million through the issue to UK investment institutions of either a debenture stock secured by a floating charge over BAe's assets or an unsecured loan stock. The stock would be listed on The Stock Exchange and would be repayable on a fixed date, being anything from 20 years up to 35 years from issue. No early repayment would be permitted. The interest rate would be fixed at a margin over a gilt edged stock of similar maturity, the margin being around $1\frac{1}{4}$ per cent. for a debenture stock and $1\frac{3}{4}$ -2 per cent. for an unsecured loan stock. Although the Project should start to generate cash within 8 to 10 years, there are likely to be substantial loans outstanding for some 15 to 20 years and BAe might well conclude that it was appropriate to have part of its general borrowing requirement provided on a long term basis.

BAe should also be able to raise up to £100 million in the eurobond market through a eurosterling bond at a fixed rate of interest or an issue of floating rate notes. This market is rather more susceptible to short term sentiment on exchange and interest rates than is the domestic market and it is not always receptive to new issues. However, with some flexibility in timing, BAe should be able to raise money in this way. An issue would be for a fixed number of years, maturities of from 5 to 10 years generally being available and, in exceptionally favourable conditions, up to 12 years. Early repayment could be allowed after, say, 3 years for a shorter maturity or 5 years for a longer maturity issue. The flexibility of this type of borrowing may well be preferable if BAe is optimistic about sales of the aircraft in the early years.

We have also considered whether BAe could issue a zero coupon or low coupon bond in order to reduce the interest charges in the early years of the Project. The benefit to the borrower that will arise from the proposed taxation treatment, which is to permit the discount on issue to be amortised over the life of the loan, is counterbalanced by the need to make provision in the accounts for such amortisation. Although interest is not paid, but is effectively rolled up with the principal to be paid on redemption, the cash flow and accounting effects are no different from BAe having to borrow to pay the interest on a conventional bond. Thus, the only advantage at present to the issuer of a zero or low coupon bond is that it does not have to borrow from other sources to pay the accrued interest, although when the relevant legislation is finalised and a market develops, it may also be that the terms of the issue will be more favourable than for a conventional high coupon bond.

IV.2.3 The banking system

Having regard to the ten year projections prepared by BAe, and also taking account of the off balance sheet contingent liabilities, we believe that banks would be prepared to lend up to £200-£250 million in respect of the Project, either directly to BAe or to a financing vehicle, guaranteed by BAe. Whilst BAe might be able to borrow more than this and, indeed, we understand that BAe has bank facilities considerably in excess of these figures, we do not believe that BAe should raise borrowings to the maximum possible extent in respect of the Project. If it did, it might be unable to provide additional finance that may be required in respect of other planned projects or new projects to be started before borrowings in respect of the Project have passed their peak.

IV.2.4 Leasing

Under existing legislation all the expenditure required to develop and launch the A320, if undertaken by BAe, would be deductible for tax purposes as incurred and, to the extent that there were insufficient profits in any year against which to offset it, would be carried forward to be set against future profits. In such circumstances, BAe might well take the decision to obtain the necessary finance in respect of Jigs and Tools and, possibly, Education (being the capitalised items) under leasing contracts providing immediate benefit of the tax allowances to lenders in return for lower cost finance. The lessors, who would probably be BAe's lending banks, would regard the provision of such finance as part of the total finance they were prepared to make available.

IV.2.5 Supplier finance

Since there are a number of suppliers with a substantial interest in the Project proceeding, it might be possible to negotiate with major suppliers a contribution to the financing of the cost of the Project. However, we consider that this could result in inflexibility in BAe's selection of suppliers and restrict its ability to obtain the most favourable terms from alternative suppliers, and might therefore conflict with the Government's (and presumably BAe's) aim to have the aircraft produced at minimum cost.

IV.2.6 General

BAe could not raise finance both in the debt markets and from the banking system to the maximum extent indicated. If the maximum amount indicated were raised either in the domestic debt markets or by way of a eurosterling bond, it is likely that lending banks would want to restrict the finance they provide to below the levels indicated. BAe could also finance its share of the Project by dollar borrowings either through a eurobond issue or through the banking system.

IV.3 Conclusion

We therefore believe that the Board of BAe is likely to agree to assume 50 per cent. of the risks of the Project and that the private sector would be prepared to provide finance for this proportion of the development and launching costs. In Section V we discuss how the Government might assist with the financing of the other 50 per cent.

V. **Methods of providing Government support**

V.1 **Launch aid**

Launch aid is clearly an attractive form of assistance for BAe. As it is not a loan but is repayable only by way of a levy on sales as and when they are achieved, it removes a large part of the risks of the Project from BAe and has the important additional benefit of relieving BAe's balance sheet and profit and loss account of much of the strain of the development and launching costs. In addition if, as is proposed by both BAe and the IDU, the return to the Government is less than the return on the Project as a whole, it increases the return to BAe.

The provision of launch aid exposes the Government very fully to the risks of the Project (in addition to its exposure by way of its shareholding in BAe) and as a counterbalance gives the Government the potential to achieve a higher return than that projected if aircraft sales exceed those required to meet the base case. The net return to the Government is the difference between the amount (including funding costs, even if they are not separately identified) of the funds provided to BAe and the receipts achieved through a levy on sales.

V.2 **Government loan to BAe**

Although a Government loan to BAe for the purposes of the Project would solve any problems that BAe might otherwise face in financing the Project, it would be of little practical aid to BAe as it would leave BAe entirely exposed to the risks of the Project and it would not help to overcome BAe's profit and loss account or balance sheet problems. BAe's ability to raise money for other projects would therefore be impaired. BAe's exposure to the risks of the Project would be the same if the Government guaranteed loans from the private sector to BAe or to a financing vehicle, with ultimate recourse to BAe, (as was mooted in our letter dated 14th October, 1983 to Mr. P.G. Hudson) for the purposes of the Project.

V.3 **Guarantee of loans to financing vehicle**

Different considerations apply, however, if the Government guarantees loans from the private sector to a company independent of BAe set up for the purpose of providing quasi-launch aid finance to BAe. Such a company would fund the

appropriate share of the launching costs on the same basis as launch aid - namely an agreed amount against the achievement of specific milestones with repayment being by way of a levy on sales. Therefore the risk borne by BAe and the recourse to BAe would be limited in the same way as if traditional launch aid was given.

The effect on the Government as compared with traditional launch aid is that it makes no payment unless and until one is required under the terms of the guarantee. If the Project was completely successful and the levy repaid the borrowings, no payment would be made by the Government at all - instead it would receive the excess levies over those required to repay the loans. If there was a shortfall, the Government would meet it. Money provided by the private sector in this way would be a little more expensive than money provided directly by the Treasury, even though the finest rates could be obtained (see Appendix 2).

This method of providing Government support has the following advantages:-

- (a) it demonstrates that the Government's purpose in giving support is to share the risks of the Project, from which it expects to receive an adequate return, rather than to provide a direct subsidy;
- (b) it provides a measure of discipline on BAe because the lenders to the financing vehicle are likely to be the same as lenders to BAe and any failure to achieve projections, whether of costs or sales, will reflect on BAe and its relationship with its own lenders;
- (c) it enables the Government to be flexible in the timing of any cash payments it is required to make because it can prepay or refinance loans and thereby determine the timing of such payments; and
- (d) if the Project is successful, the Government will receive a reward, having put up no direct finance itself.

However, if the rate of levy which it is possible to negotiate gives an expected real rate of return lower than expected real interest rates, it may be desirable to recognise this from the outset either by a direct subsidy or by use of one of the mechanisms for reducing interest costs described below.

V.4 Use of shareholding in BAe

We have considered whether there is any means by which the Government could provide launch aid using part of its 48 per cent. shareholding in BAe.

In order to reduce its financial exposure to BAe and the aircraft industry, the Government could sell a proportion of its shares and provide the proceeds as launch aid (or otherwise) for the Project. However, we do not believe that the two decisions, the sale of shares in BAe and the provision of launch aid for the Project, should be linked.

It has been suggested that by issuing debt to the private sector linked with warrants to buy part of the Government's shareholding in BAe at a fixed price, BAe might be able to raise finance more cheaply and that this would be a possible method of the Government supporting the Project. However, we do not believe, given the Government's commitment to retain at least a 25 per cent. shareholding in BAe, that the total value of the warrants that could be issued at a realistic exercise price would make a significant contribution to the financing costs. The issue of warrants would also stop the Government disposing of the relevant shares while the warrants were still exercisable - probably at least a five year period.

If such warrants were issued in respect of debt to be raised by BAe, the risks to be borne by BAe in respect of the Project would not be significantly reduced and the proportion of the Project which BAe could finance would not be significantly increased. If, however, warrants were issued in respect of debt raised by the financing vehicle, the amount or cost of finance to be raised by it, and hence the extent of the Government guarantee, would be reduced.

V.5 Tax allowances

The financing vehicle referred to in Section V.3 and described more fully in Section VI could be structured in such a way as to enable lenders to take advantage of the tax allowances generated by the expenditure on the Project, thus enabling finance to be provided at lower cost.

VI Establishment of a financing vehicle

We consider in this section the structure and role of a financing vehicle whose borrowings would be guaranteed by the Government, as described in section V.3 above.

VI.1 Constitution

The company would be formed with the minimum necessary share capital and its ownership would not be important so long as it was not owned by BAe or the Government. If the company is to borrow solely from banks, it could be incorporated as a private company and, as such, its share capital could be £100. If it was intended to borrow publicly, through issues in the debt markets, it would need to be a Public Limited Company and, as such, would require a share capital of at least £50,000 of which one quarter would have to be paid up.

VI.2 Role of the Government

As guarantor of the obligations of the company, the Government should be represented on the Board and would have a decisive voice in how the finance was to be provided and would also supervise payments to BAe in the same way as it supervises launch aid.

VI.3 Accounting

The company would record the finance raised as a liability and would record the sums paid to BAe as expenditure in relation to the Project. BAe would account for the sums received from the finance vehicle in the same way as it accounts for launch aid i.e. it would offset them against the related expenditure. It would therefore be advantageous to BAe if the monies provided by the finance vehicle were primarily in respect of the Research and Development expenditure which would otherwise have to be written off immediately in accordance with BAe's usual accounting policies. If this were the case, the effect on BAe's profit and loss account and balance sheet would be the same as the effect of accelerating launch aid as discussed by the IDU.

VI.4 Sources of finance

The sources of finance for the company would be similar to those available to BAe i.e. the debt markets and the banking system, as discussed in Section IV.2, although the limits suggested would not apply to borrowings guaranteed by the Government.

VI.5 Repayment of loans

We would expect the loans to the company to be arranged with maximum flexibility for the borrower as to repayment terms. This would enable the Government, as guarantor, to arrange prepayment of all or part of the loans if it so wished. It would also be able to refinance all or part of the loans when they matured. The Government would thus be able to keep under constant review, in the light of the progress of the Project, the timing of any payments it might have to make under its guarantee.

The principal source of funds for the repayment would be a levy payable by BAe on sales of aircraft; which we would expect to be fixed at the same rate as if conventional launch aid was being provided. Once all loans and interest had been repaid, the benefit of the levy would accrue to the Government as guarantor.

The Government might wish to consider fixing the levy at a higher rate for, say, the first 200 or 300 aircraft than for those subsequently sold, which would enable the loans to be repaid more quickly than if a constant rate of levy, giving the same overall return, were used.

VI.6 BAe's share of financing

The company could be designed to finance all the launching costs including those for which BAe will be responsible. To do this it would raise money from BAe or under a guarantee from BAe as well as under a guarantee from the Government. We see no particular advantages in this, and suggest that the company be restricted to its principal purpose, i.e. to act as a vehicle for channelling private sector finance for that part of the Project supported by the Government.

VII Conclusions

- VII.1 In view of the high risks and low return of the Project, we do not believe that finance can be raised in respect of the Project except on the credit of either BAe or the Government. As the costs which can be borne by BAe are limited by BAe's balance sheet and profit and loss account, the balance of the finance not provided by BAe will need to be provided or guaranteed by the Government.
- VII.2 We consider that the analysis by the IDU supports the conclusion that the Board of BAe is unlikely to be able to justify proceeding with the Project unless about 50 per cent. of the finance is provided or supported by the Government. We have identified a number of ways in which BAe could raise its proportion of the finance.
- VII.3 We have identified a method of providing private sector finance for that part of the Project which the Government may decide to support. We believe that this would meet the Government's prime objectives, assuming the decision is taken to proceed with the Project, by avoiding the need for Government to advance money directly in the early years of the Project (unless it decides to provide an interest rate subsidy) and by creating a structure which will impose the maximum financial discipline on BAe. At the same time, from BAe's point of view it would have the same effect as traditional launch aid in removing part of the risk of the Project and reducing the burden on its profit and loss account and balance sheet in the early years.

Morgan Grenfell & Co. Limited

19th January, 1984

APPENDIX 1

Brokers' and other comments on expected level of launch aid

1. The following brokers' opinions on the level of launch aid likely to be given in respect of the Project have been obtained from an analysis of circulars and in telephone conversations with the relevant analysts:

<u>Broker</u>	<u>Expected level of launch aid</u>
James Capel	50%
L. Messel & Co.	70%/80% (believe that BAe would go ahead with 50% aid)
Rowe & Pitman	50%
Savory Milln	Above 50% (believe BAe will refuse project if 50% aid offered)
Albert E. Sharp & Co.	100% (believe BAe will refuse project if 50% aid offered)

2. The following comments on the amount of launch aid that should be given have been extracted from recent newspaper articles:

<u>Source</u>	<u>Date</u>	<u>Comment</u>
Financial Times	16 Jan 1984	'the betting is that it (aid) will be approved in some form' and should be 'much less than total amount requested' with 'no Treasury guarantees'
Observer	18 Dec 1983	'BAe's bid....for all £400m..... seems certain to be rejected'
Economist	4 Dec 1983	'BAe should only receive £200m'

APPENDIX 2

Interest costs of launch aid funding

The table below shows the difference in annual interest costs up to 1992 between the Government funding launch aid directly and the finance being raised from the private sector under a Government guarantee, on the following assumptions:-

- (a) payments to BAe are made in respect of 50 per cent. of the launching and development costs on an accelerated basis, as discussed by the IDU;
- (b) projected sales are in accordance with the profile assumed by BAe on the basis of total sales of 700 aircraft;
- (c) all figures are in constant prices and real interest costs are 5 per cent. (launch aid) and 5½ per cent. (private sector finance); and
- (d) the levy is determined so as to give the Government a real rate of return (before interest) on the base case assumptions of 2 per cent.

Year	<u>Interest costs</u>		
	Launch aid £m	Private finance £m	Increase £m
1983	2.41	2.65	0.24
1984	4.76	5.24	0.48
1985	6.81	7.53	0.72
1986	8.56	9.50	0.94
1987	9.76	10.86	1.10
1988	10.24	11.46	1.22
1989	10.64	11.97	1.33
1990	10.89	12.31	1.42
1991	10.83	12.32	1.49
1992	10.60	12.15	1.55
Outstanding balance of principle and interest at end-1992	222.61	233.11	10.50

Dear space March '82

Airbus

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31 JAN 1984

cc/so

Await DTI contribution

JS



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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

31 January 1984

Dear Tim,

GP's file

Thank you for your note of 17 January enclosing a copy of your letter to Steve Nicklen and a page of the petition about the A320 Airbus project handed in by Mr Barry Jones MP and Mr Sid Phillips, Convenor of the Shop Stewards at British Aerospace, Chester Division.

Aerospace:
A320
File

In your letter of 24 January to David Saunders you asked whether the Prime Minister ought to wait until a decision has been made on the A320 before replying to Mr Jones. The meeting with Mr Jones on 24 January did cover points raised in the petition. I understand that DTI's advice is that if you can reply before launch aid for the A320 is considered then, because Mr Sid Phillips was not at the meeting on 24 January, it would be politic to do so, so that Mr Phillips is aware of the current situation. My Secretary of State would support that line.

DTI will contribute to the reply on the question related to the application for launch aid by British Aerospace. You will appreciate the importance attached to the Government's decision particularly in relation to future employment at Broughton but no doubt the Prime Minister will not wish to advance Broughton's case at the expense of other British Aerospace plants in the event of the project proceeding.

Part of the Prime Minister's reply could refer to the Deeside Area. I would suggest the following paragraph:

'The Government is of course making efforts to attract other investment to the Deeside area which is a Special Development Area. You will know of recent successes including investments in Deeside by Caravell, the Co-operative Wholesale Society, Warwick International, Kimberly Clark, Optical Fibres, Shotton Paper Mills and Angus Chemical (UK) Ltd. Last year the Secretary of State for Wales designated the Delyn Enterprise Zone which now has over 60 firms within its area. The recent decision by Caravell to locate in the Zone underlines the attraction of the Zone and the job potential it could provide for the Deeside area.'

Tim Flesher Esq
Private Secretary
10 Downing Street



This will not mitigate directly the problems faced by British Aerospace at Broughton (Chester) and as a result of the unpopularity of Aber Chemicals of Flint in the area the investments by Warwick International and Angus Chemical (UK) Ltd, both of which manufacture chemicals, will not find favour in all quarters. There was a recent explosion at Aber Chemicals which caused some apprehension locally about its activities. The explosion is currently being investigated by the Health and Safety Executive.

/ I am copying this letter to Steve Nicklen.

*Yours
w/w*

Judy Roberts

MISS J H ROBERTS

Aerospace : A30 3/82



31 JAN 1984





Chancellor of the Duchy of Lancaster

PRIME MINISTER

AIRBUS A320

1. This project is not commercially viable. No one would expect it to be. Few people really appreciate how vast is the scale of output by the American industry - the Boeing 727 production line has just closed after the sale of 1,800 aircraft, the 1,000th Boeing 737 has just been rolled out, over 1,000 DC9's have been sold. The Americans write the rules and set the terms of the market. With the sales of the Airbus A320 so small in relation to those of the American industry there is no hope of being able to compete profitably. Where we have succeeded - as we did with the Viscount - it has been because on technology we were way out in front. That is not the case with the A320. It is optimistically described as a "high technology aircraft" - but that means no more than that it will be abreast of its competitors. The A320 will only fly if one way or another it is subsidised.
2. Despite all this, the political pressures are such that I believe that we have no alternative but to go ahead. It may even be that in terms of the economy as a whole it could be to our benefit. This is an area where we know far too little. Be that as it may, for the moment it is the political imperatives which are decisive.
3. Given that we do go ahead, the crucial issue then is the structuring of our support. It is essential to ensure that British Aerospace back their judgment with their own money and not just ours. The history of launch aid in this field is quite appalling. In real terms only one seventh of the launch aid provided over the last 30 years for airframe manufacture has been repaid: in only one case, the Viscount, has there been full repayment. I am sure that the structure of launch aid is a contributory factor. There would be a lot to be said therefore for converting launch aid into something more nearly approaching a loan, as the Treasury have tentatively suggested.

4. But the acid test is whether the shareholders - unfortunately still including ourselves - are prepared to put up a respectable share of the cost. This is just the kind of risk project that ought to be financed by equity capital. The investors in British Aerospace have done remarkably well - the shares stand at 243p compared with the issue price of 150p. If the prospects are as good as the Company claim, the shareholders ought to be prepared to back it with their own money.
5. I have no doubt at all that the correct way of financing this project is by way of a three-way split - part launch aid, part equity and part BAE's internal resources - with the Government's total commitment in aid and equity being kept to about one half of the total finance needed. This is the nearest approach one can get to ensuring that proper market disciplines operate and proper market pressures apply.
6. DTI claim that "the option of raising additional equity is not open". They produce no evidence to support this. If it were true it would be a damning indictment of the City and of BAE alike - let alone of the commercial prospects of the Airbus 320.
7. An approach on these lines might seem to cut across our privatisation programme. But I would question this. Our share of the BAE's capital would not be increased and we would have ensured that the private sector as well as ourselves had put up new money. There is no real prospect that we could sell off our BAE share now or in the immediate future. If we attempted to do so it would be interpreted as meaning that we had no confidence in the future of BAE or of Airbus. But once the Airbus programme was firmly established, it would be possible to sell a further tranche of our holding. This would mean that we would then recoup part of our investment in Airbus instead of having it all locked in in the way that launch aid does.

A.C.

A C

30 January 1984

PRIME MINISTER

cc Mr Redwood
Mr Alison

Visit of Sir Austin Pearce

This should be mainly a listening meeting - giving Sir Austin Pearce a second chance to present his case. You should make clear that the Government has not yet decided on whether to support the A320 and, if it does, what level of support to offer.

Details negotiations are going on between DTI (advised by Morgan Grenfell) and BAe (advised by Kleinworts) on a financial package. It would be better not to enter on detailed negotiations but to keep the discussion on more general lines.

Having heard Sir Austin's case, you could quiz him on the following:-

- i) Why should the Government support an approach which, even on optimistic assumptions, earns less than the 5 per cent rate of return the Government seeks elsewhere in the public sector?
- ii) Why should the Government provide 100 per cent launch aid? Should the shareholders of BAe be putting up some equity for a project of this kind? What are the objections to this?

You have already seen the Policy Unit brief for this week's meeting of EA. You will also be interested to see the views of Lord Cockfield - see attached minute.

AT

30 January 1984

PRIME MINISTERPOLICY UNIT
27 January 1984AIRBUS A320 AND ROLLS ROYCE V2500The Airbus A320

This project offers a low prospective rate of return and high risk. The prime sponsors of the project think it might yield 4.2% real (you can pick up 3.8% real without risk on a gilt-edged stock) whilst the Treasury think it will produce a nil return. We believe the Treasury. Thirty-eight out of the last forty projects which received launch aid lost in real terms.

British Aerospace is behaving badly. It is not seeking Government investment or support in the highly lucrative military programmes which it runs. It thinks these are suitable cases for its shareholders to sponsor and to pocket all the profit, most of which comes from favourable MoD contracts. Yet when it looks at a dubious project in the civil aerospace field it decides that the Government should pick up the tab for the whole of the launch aid. It also attempts to rig the debate in such a way that the Government is seen in the role of arbiter over a project which is best assessed by those very people in British Aerospace who have passed it over to the DTI.

If you were to accept the case for 100% launch aid you would be accepting a level of support that the Government has never accepted before. Many people in the press and public would write and think that Conservative industrial policy had changed to pumping millions of pounds of taxpayers' money into dubious return projects.

The correct commercial course of action is to offer no aid at all and to affirm strongly that this type of risk project is best judged and financed in the private sector. The argument could go on to say that it was for this very reason that shares in British Aerospace were sold in the first place and the idea that they should come running back to nanny at the first difficult decision was never in the script.

This would result in political opposition from those impressive lobbies that are being wheeled out to support British

Aerospace. Some backbench MPs with aviation interests will object as will those with a constituency interest in aerospace production areas. The danger is that the Government will still be seen as the arbiter and will be judged as having pulled the rug on a project which involves European collaboration. The Foreign Office will be upset as they believe other benefits (nebulous though they might be) will follow from being helpful over the A320. No-one has ever spelt out what other negotiating prizes we can win that are contingent on giving money to A320.

There is another way of proceeding. The Government could propose a maximum amount of launch aid of around 25%, approximately £115 million. This money could be raised by selling 23% of British Aerospace shares currently held by the Government. The Government could say this is a project like any other in the aerospace field and that in view of its high degree of risk the Government is only prepared to make a realistic contribution. The Government would not finance any cost overruns nor would it be involved in any negotiations about guaranteeing British Aerospace's debt. An offer of around £115 million need not cause British Aerospace to withdraw. It would force the decision back to them. You could also use your private meeting with Sir Austin Pearce to remind him that British Aerospace enjoys many good MoD contracts and that undue criticism of the A320 decision would be unreasonable.

Rolls Royce V2500 Engine

This is a better project as it offers a higher rate of prospective return and lower risk. It places Rolls Royce advantageously in the kind of collaborative project the Government has always felt vital to the Company's future and eventual sale to the private sector. We could support the principle of launch aid and suggest a maximum of £50 million compared with the Company's request for £131 million (cash).

Mr Tebbit is right about the need to link announcements of approval for V2500 with an announcement about Rolls Royce's intention to collaborate with GE in the large engine sector.

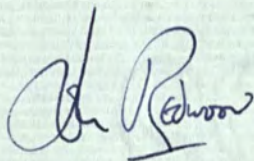
It is a great advantage that these two projects come up at the same time. Even following the best and severe option of offering no launch aid to British Aerospace the Government would be able to point to its launch aid to Rolls Royce and say that it had made a

considered judgement based on the commercial facts as it saw them.
It was not hostile to the idea of launch aid for aerospace projects
but only believed in backing good ones.

Conclusion

Lower taxes and rolling back Government are fundamental to your Government's strategy. A feeble decision on A320 would be seen as backtracking on these broader goals and could also be criticised as being unsound commercially. We therefore recommend that no launch aid or very limited aid be given to the A320 and that a negotiation be undertaken to give some launch aid to Rolls Royce.

We attach briefing notes on the two projects.



JOHN REDWOOD

A320

1. A320 is a 150 seater, narrow bodied, twin engine aircraft, due to enter service in 1988. Its competitors are versions of the Boeing 737 and McDonnell Douglas DC9 Super 80 (both already in service) and a possible new Boeing 7 Dash 7 (not yet committed).
2. The estimated all up development costs of the aircraft are approximately £2.3 billion cash, of which BAe's share (for the wings) would be 20% or £461m. They have asked for launch aid of 100% of this amount.
3. BAe's central case assumes 700 aircraft sales at a 1982 price of \$24.25m and an average exchange rate of \$1.60=£1. On this basis, the real rate of return is 4.2%, some way short of the Treasury test discount rate of 5% for a low risk project. A320 is far from that.
4. Price and exchange rate are the key sensitivities.

As to price, the A320 needs to be moved from a 10% discount to an 8% premium in the three years following introduction. Coupled with an assumed 8% inflation rate, this means that the price of A320 would have to increase by about 50% over that period - against established competitors with lower base prices. The A320 has superior flying economics to the B737 and DC9, but it would require a savage increase in real fuel prices for airlines to pay so substantial a premium for A320.

As to exchange rate, who knows over 20 years? We should note, however, that at a sustained \$1.78=£1, the real rate of return falls to zero.

5. Technically, the project is of low risk. It helps to sustain British competence in aerodynamics and in lightweight structures using composite materials, but these do not have widespread fall out benefits.
6. As to employment, BAe have painted the potential job losses more carefully than the increases. If A320 does not go ahead, they suggest losses of between 8000 and 10,000 as their other programmes run down and they and suppliers shake out surplus labour. If A320 goes ahead, they have advised informally that BAe total employment on Airbus projects might rise by 1000.

7. The effect of launch aid will be to cushion BAe shareholders in respect of dividend cover, real growth in dividends, and debt/equity ratio. There is ample scope for squeezing the company's ambition for using taxpayers' funds as a surrogate for greater internal efficiency and sharper commercial judgement. We judge that launch aid of around £115 million maximum would be adequate if we wish to make an encouraging gesture to BAe. Proposals like this merely underline how important it is for Government not to be a shareholder in BAe. We should sell our "surplus" holding in BAe (23%) to raise any launch aid offered.
8. FCO and DTI regard British participation in A320 as an important token of our commitment to Europe. They see it as having some value as a bargaining counter for other problems. We are not persuaded that A320 is a bargaining counter, or, if it is, whether it carries real weight.

RJ.

ROBERT YOUNG
27 January 1984

CONFIDENTIAL

ROLLS ROYCE V2500 ENGINE

1. The engine is a collaborative venture between Rolls, Pratt and Whitney, a Japanese consortium, MTU in Germany and Fiat in Italy. Rolls and PW would be the lead partners, with a 30% stake each in the joint venture company, International Aero Engines Corporation. The engine is in the 20-30,000 lbs thrust sector, which makes it suitable for A320 and its competitors.
2. Rolls are seeking £131 million (cash) of launch aid, which is 50% of their 30% contribution to the total development costs of the engine (roughly £875m). The real rate of return predicted is 9.5%, nearly double the Treasury test discount rate. →
3. We judge that Rolls' estimates of market and technical risk are on the conservative side and that, even then, the project remains commercially very attractive. We therefore support the project (which Government needs to approve under the terms of its Memorandum of Understanding with Rolls) and, separately, the principle of launch aid.
4. The strength of the V2500 engine in the market mirrors the weaknesses of A320. The engine will drive all competitors in the 150-seat aircraft market, so Rolls should do well whoever wins the aircraft battle. In addition, the V2500 is substantially more fuel efficient than its ageing GE competitor and can draw on a price premium which will not be discounted by higher relative production costs.
5. The project is financially so attractive that, by itself, it does not need launch aid. But we should consider the development of RR's financial record in the run up to privatization. There is a profit and cash flow problem in 1984 and 1985. If Rolls' results improve more quickly than we thought last year, it might be possible to accelerate privatization into 1987, in which case 1984 and 1985 are important. We support the Treasury suggestion that launch aid of about £50 million is right to cater for 1984/85.
6. One aspect of the collaborative proposal not treated by officials' papers is how the joint company will be structured and operated and whether/how the partners could withdraw. E(A) should satisfy itself on these points.

ROBERT YOUNG
27 January 1984

R.Y.

were aware that they were buying untreated milk. Since 1983 virtually all cows' milk sold for human consumption in Scotland has had to be pasteurised. It is the intention in England and Wales to prohibit the sale of raw milk through outlets such as schools, shops, and institutions from May 1985. It is believed that these measures will significantly reduce salmonella infection in humans from this source. I know that I have not answered two of the questions asked by the noble Baroness, and perhaps I may write to her.

Finally, I wish to take up the point which the noble Lord, Lord Cledwyn, made about food irradiation, which I am advised is in some countries recognised as an effective measure to reduce levels of pathogens and spoilage organisms in certain foodstuffs, including poultrymeat. The process, which I understand does not induce radioactivity in the food, is not permitted in the United Kingdom at the present time. The noble Lord asked about the report of the advisory committee which is currently reviewing the safety of irradiated foods for the consumer. Health and Agriculture Ministers expect the report during the summer.

I hope that what I have said will indicate the degree to which the Government have involved themselves in these difficult problems. I very much welcome today's debate, even though it has raised difficult questions and in some cases has put me in the position of having to try to answer them. However, I hope that the debate has provided for your Lordships an assurance that the Government will continue to monitor the situation closely, and would be prepared to take further action if it became clear that that would be useful or necessary.

Lord Rea: My Lords, we have had a most interesting, instructive and, I hope, useful debate this evening. I was pleased to hear from the noble Lord the Minister that there has been some improvement on the poultry side, though I must admit to a certain disappointment over his reply. I have a feeling that the Government are being somewhat complacent in this area when the actual figures for salmonella infections are going up. I do not think that it is quite enough to expect that this debate in this House itself will change matters very much, but I can assure the Minister that we on these Benches will continue to remind the Government of the problem from time to time when figures are presented to us. It only remains for me to thank all noble Lords and the noble Baroness who have contributed to this evening's debate, and I beg leave to withdraw the Motion.

Motion for Papers, by leave, withdrawn.

Airbus A.320

5.38 p.m.

The Earl of Kimberley rose to call attention to the need for Her Majesty's Government to assist British Aerospace in the development of the Airbus A.320; and to move for Papers.

The noble Earl said: My Lords, Her Majesty's Government must decide very soon—perhaps in the next few days—whether or not to accede to British Aerospace's request for launch aid for the Airbus

A.320 project. The decision will be a crucial one for our entire aerospace industry.

Since the last war the aerospace industry has had its ups and downs, but over the years the country has invested heavily, and in many cases I would say wisely, in this high technology industry. It is probably true that we once had too many civil aircraft projects. We are now in danger, however, of going to the other extreme, particularly if we should opt out of the A.320. Should this happen, Boeing would be laughing all the way to the bank as it would be given a virtual monopoly in the civil aircraft market.

Four and a half years ago, in June 1979, I said in your Lordships' House:

"Today France has the major share in European civil air transport". [*Official Report*; 28/6/79; col. 1669.]

Times do not change very much, but we must remember that we are partners in Airbus Industrie, so I think we can add ourselves to France in that instance. I maintain that there is a market for the A.320 and that it is being presented to us on a platter if we have the foresight to take it.

Today, in Britain, I think we can take a great pride in our air industry, which ranks second only in the Western world to that of the United States. The French might argue that they are our equal in aerospace, but I will claim that our industry's demonstrably superior strength in aero-engines and electronics systems puts us well ahead of them. Our aerospace industry employs 200,000 highly-trained workers. Its annual turnover, I believe, amounts to more than £6,000 million. Over half of this output is sold abroad, and its contribution to our annual trade balance currently exceeds £1,000 million.

The Prime Minister herself, speaking at the 1980 Farnborough air show dinner, said:

"Our aerospace industry is a great national asset. Its importance to our economy cannot be overstated."

It has also been said that the Prime Minister is concerned not to have another Concorde on her hands. Let us get one fact straight. Concorde, of which I was a supporter and still am, was an investment in the then unknown. The A.320 is quite the reverse. The A.320 is not a technological leap in the dark. It will be a match for anything that Boeing can produce in the timescale, and will be far superior, more economic and more efficient than the thousands of aircraft it is intended to replace. It is merely a rational development of Airbus Industrie's larger and now well proven A.300 and A.310 airliners.

The crux of the matter is this. The Government, not unnaturally, wish to be sure that the A.320 will, in due course, provide a satisfactory return on the monies invested in it. British Aerospace believes that the A.320 is, indeed, a sound commercial proposition. The company is asking for launchaid; that is, a loan—a loan that British Aerospace is quite convinced it will be able to repay.

British Aerospace is certain that there is a large market for a new 150-seat medium-haul airliner such as the A.320. Those who are best able to judge these matters agree that this is so: Boeing, McDonnell Douglas, Pratt and Whitney, Rolls-Royce, British Aerospace, Merrill Lynch and others confidently predict that, by the end of this century, some 2,500 to

[THE EARL OF KIMBERLEY.]

4,000 aging, noisy, fuel-thirsty, medium-haul, 150-seat-class airliners will just have to be replaced. The general estimate is 3,000 in the next 15 years.

British Aerospace believes that Airbus Industrie will be able to attract at least one-third of this market, for at the moment only two manufacturers are now competing for it, Boeing and Airbus Industrie. I believe that Lockheed and McDonnell Douglas have bowed out of this competition, at least temporarily.

Airbus Industrie needs to sell only some 400 A.320s to break even on the project. It has good reason to be confident that it will sell at least twice that number. The company has already established its reputation with the airlines with the A.300 and the A310, which have sold well. Airbus Industrie has already received orders and options from the airlines for 88 A.320s and this is a more than adequate launch base for the project. It has been established despite the recent recession in the fortunes of the airlines.

One might ask why Airbus Industrie needs to launch another enormously expensive project when it is doing so well with the A.300 and the A.320. The answer is that the Airbus Consortium needs to broaden its product base. Individual airlines operate a range of airliners—small, medium and large—but they prefer that their fleets should be supplied, if possible, by one manufacturer, for good commercial reasons. Boeing offers the airlines such a range of aircraft. By being able to offer the small A.320 as well as the medium-capacity A.310 and the larger A.300, Airbus Industrie can satisfy the needs of most airlines. Moreover, the availability of the A.320 would enhance further the sales prospects of the A.300 and the A310.

The A.320, in my opinion, is a sound commercial project with every prospect of success. That the market for such an aircraft up to the year 2000 is there, even without growth, cannot be denied. British Aerospace, which has a 20 per cent. stake in Airbus Industrie, with several thousands of its workers producing high technology wings for these aircraft, is surely right in wanting to buy into the A.320 project.

Furthermore, British Aerospace makes the point that if it were possible to take on the 20 per cent. share of the A.320 programme without sensible long-term loan arrangement—in this case, launch-aid—then the company would be the first to wish to do so. The company has, however, already made enormous investments in developing its space and communications business and other product lines such as the British Aerospace 125-800 business jet—an outstanding success from the outset and the Jetstream 31, which is beginning to show signs of following the 125 in its success story. In fact, only last Friday another order came from California for more Jetstreams. The new British Aerospace 146 is demonstrating that it will sell well; and, yet again last week, Air Wisconsin ordered two more 146s.

The A.300 and the A.310 are already commercial successes. Since British Aerospace rejoined Airbus Industrie in 1977 it has financed the launch, development and initial production of the A.310, the A.310-300 and the A.300-600 a total of about £400 million entirely from the company's own resources. If one adds to this the company's other massive

investments at the bottom end of the civil aircraft range, one judges that it is reaching a prudent financial limit for the civil part of the business. If it were forced into excessive borrowing, the high cost of finance would eventually erode profits and undermine the business.

If Britain is to capitalise on Airbus Industrie's success and opt into the A.320, British Aerospace needs Government launch aid to tide the company over. The other European partners in Airbus Industrie already have similar support from their Governments, and have had on all previous airbus projects.

In the case of British Aerospace, launch aid will not cover all the costs. Much will still be borne by British Aerospace itself, which will fund all of the production work in progress while continuing to provide development funding for other airbus wide-body aircraft programmes. British Aerospace's investment in the A.320 alone will be worth some £200 million. Government launch aid, which relates to start-up costs comprising research and development, jigs, tools and education, will, in fact, represent approximately 70 per cent. of the total—in other words, some £430 million spread over several years, with peak annual requirements in the region of £97 million per annum in the years 1986 and 1987.

Without launch aid British Aerospace is adamant that it just cannot participate in the A.320 project. Let us be quite clear on that point—and on another. With or without Britain, France and her other European partners in Airbus will go ahead with the A.320. But what will be the consequences of Britain opting out? First, to opt out will be taken very badly by our European partners in the consortium, particularly by France and Germany, who will feel very badly let down. This could have a serious impact on our chances of involvement in future major collaborative aerospace projects such as, for instance, the future experimental fighter aircraft programme.

Secondly, a negative decision would spell the end of the United Kingdom industry's participation in the large civil aircraft, just as Europe is breaking down the stranglehold of the United States in this field. Britain will have no hope of retrieving the situation in future. Thirdly, if Britain opts out the chances of Rolls-Royce getting its engine accepted for the A.320 will be seriously affected. It is perhaps interesting to note here that the decision of British Airways on whether to order A.320s eventually will very largely depend on the aircraft having Rolls-Royce engines, as it makes a considerable economy on the maintenance of its power plants if they come from one manufacturer. I know that my noble friend Lord Bessborough is going to say a few words about that.

Finally, if Britain opts out, our aerospace industry will suffer reduced employment—some 10,000 jobs could go in British Aerospace and its subcontractors, and in the associated equipment industry. The industry's exports and its contribution to the nation's trade balance would inevitably decline. I repeat: since the last war Britain has invested heavily in aerospace. Today, we possess the technological know-how, the skilled workforce and the productive capacity which, together with our European partners, can be a challenge to the United States. Airbus Industrie, with

British Aerospace, has already blazed the trail with the A.300 and the A.310.

So I hope that my noble friend the Minister will agree with me that now is the time to capitalise on success and support our European partners. The risks are not as great as some would have us believe. On the other hand, the benefits of the A.320 being successful—which it almost certainly will be—to those who work in the industry and to our economy as a whole could be enormous. Britain must take up this challenge, as our European partners surely will. Not to do so would be sheer folly. My Lords, I beg to move for Papers.

5.53 p.m.

Lord Bruce-Gardyne: My Lords, it is almost 20 years since I lost my virginity in another place. I must confess that it seems to me that this is one of those experiences where familiarity does not yield assurance and therefore it is with at least as much trepidation as then that I crave your Lordships' indulgence this afternoon. I think that a maiden speech in this House has at least one advantage over a maiden speech in the other place—certainly at the time when I made mine—in that in those days, at any rate, it was considered wise or prudent to devote at least one-third of one's speech to praising the beauties, perceptiveness and intelligence, first of one's constituents for sending one there and, secondly, of one's predecessor who, by his death or other indisposition, had made your journey possible. As I understand it, those problems do not arise in this House, and so one can turn at once to the subject of the debate.

First, I should like to thank my noble friend Lord Kimberley for raising this matter this afternoon. Certainly his timing could not have been more perfect, for, as he reminded your Lordships, we know the Government are poised on the very brink of decision in this matter. Moreover, as a result of my noble friend's judicious choice of subject this afternoon my noble friend who is to reply to the debate will be able to participate in the making of that decision fortified by the wisdom and advice of your Lordships' House.

My noble friend Lord Kimberley spoke with an experience and knowledge of this industry which I cannot begin to match. He made a most powerful and effective case. Inevitably, I suppose, like my noble friend who is to reply to this debate, I am inclined to approach issues of public investment tarred with the Treasury brush. In fact, I must confess to having been a sort of "Treasury toady" long before I was summoned by bells to Great George Street in 1981—a "Treasury toady" at least in the sense that, while I recognised that the Treasury was often wrong, I had an inclination to feel (as I still have) that if we had accepted all the Treasury's judgments, right or wrong, over the years we might have been a somewhat richer and more prosperous country than we are today.

Of course, I have no idea whatever what will be the Treasury's judgment in the matter of the A.320 which is before your Lordships tonight. I do not know whether my noble friend Lord Cockfield will be able to tell us that: perhaps not. But if one were looking at this proposition from within the Treasury, one might perhaps pause to consider the history of our support

for civil aviation in this country and certainly at least to ask a few questions about the present proposition.

I have made some inquiries, but it is extremely difficult to tell precisely what has been the total of our expenditure on civil aviation support over the whole of the post-war period, not least because, of course, during the period of the nationalisation of British Aerospace the concept of launch aid did not apply and it was the discipline of the external financial limit which counted. But the figures that I have obtained from the Library suggest that some sum in the range of £1,800 million may have been invested in all forms of support for civil aviation in this country over the last 30 years, and of that some £400 million or so is estimated to have come back. I must emphasise to your Lordships that that is not a dividend: it is more akin to a distribution by the receiver to the extent of 22p in the pound, because the total investment did not come back by any means.

We also know that of all the civil aircraft projects launched in this country since the war only one, the Viscount, has been in a position to return the initial capital investment in it by the taxpayer. As far as I know—and other noble Lords will be able to correct me on this—so far the Boeing 727 is the only civil jet in the world which has in fact made a commercial profit.

My noble friend Lord Kimberley rightly drew attention to the impressive success of Airbus Industrie in obtaining orders for its first two models. He also rightly drew your Lordships' attention to the large market which awaits the A.320 worldwide. However, I suggest to your Lordships that sales, like loyalty, are not enough. Sales must be achieved at a price which receives a commercial return. Sometimes that is an obligation which perhaps some of those in the civil aviation industry need to consider more closely than they always do.

Like others of your Lordships, this afternoon I have received some interesting briefing material from Airbus Industrie. I looked anxiously through it before this debate began, and my eyes seized on an item:

"A.320—new dimensions to profitability".

But unfortunately the new dimensions to profitability, to which it refers, are the prospects of profitability for those who will buy the A.320 rather than the prospects of certain profitability from the A.320 itself. Sometimes one could wish that Airbus Industrie had produced some figures to show what profits it is making from the aircraft that it has already developed.

Furthermore, it occurs to me that, if the prospects for the A.320 are so encouraging, is it really beyond the capacity of the City of London, unaided by Her Majesty's Government, to produce the finance which is required in this instance on the terms which British Aerospace says is essential—that is, with servicing and repayment deferred until the moment of cash flow in the 1990s? After all, the City of London was capable of generating thousands of millions of pounds for investment in North Sea oil at a time when, long before the first oil shot, the prospects of a return from that investment were at best highly hazardous. At the other end of the scale, it is worth recalling that no less than £12 million was generated for a most surprising project called Nimslo in just half an hour in the City.

[LORD BRUCE-GARDYNE.]

Therefore, I should have thought that if, indeed, the prospects are so glittering, there is no reason on earth why British Aerospace should not be able to raise the finance that it needs, on the terms that it needs, within the City of London.

I also note—and it seems to be a matter for small preoccupation in this context—that at the present time the airframe manufacturers of the world seem to be awash with aircraft which they are unable to sell. We read that Boeing has actually been reduced to purchasing back from one of Airbus Industrie's respected customers Airbus aircraft that have not yet been delivered, so that the customer will buy Boeing instead. Apparently there is a dramatic crop of aircraft on the shelves awaiting customers going by the elegant name of "white-tails".

Again, as I understand it, sales in this area are conducted in dollars. At the present time this is, of course, tremendously to the advantage of the European aircraft industry owing to the enormous soaring strength of the dollar. But will that last? Will the rate for the pound be 1.40 dollars when the time comes for Airbus Industrie to be paid, or will it be 2 dollars, or will it be 2.20 dollars, and, if it were, what would be the implications of that for the profitability of the whole project?

I know it is pointed out that, if we were not to proceed with this launch aid, we would expose the airlines of the world to a monopoly supplier in Boeing. But, as my noble friend reminded us, it has also been pointed out very clearly that, if we were not to proceed in this country, our partners would do so. I can appreciate that one or other of these propositions must be correct, but for the life of me I find it difficult to believe that both of them can be correct at the same time.

Finally, of course, I realise only too well that there is a vital issue which we cannot possibly ignore of the security of employment which would be achieved by making this public investment. However, at the same time we must recall a subject which the noble Lord, Lord Cledwyn, introduced before your Lordships not very long ago about the desirability of public investment. Of course, the essence of investment is that it makes a commercial return, and I sometimes wonder whether perhaps one of the reasons for our uninspiring relative performance over the past 20 years or more may not be that the return which we have achieved on public sector investment, not least in the aircraft industry, has hardly by any means always been at commercial levels.

On 2nd December at column 1175 the Minister of State at the Department of Industry said in another place that the Government must:

"examine the prospects of the project yielding a commercial rate of return".

As my noble friend Lord Kimberley pointed out to your Lordships, that is the criteria which we would all accept. If the verdict of that examination is positive, let us proceed with a high heart. But if the verdict of that examination is negative, I am bound to suggest to your Lordships that our children, who would have to foot the bills in their taxation, would not necessarily thank us in years to come if we proceeded on that basis.

6.7 p.m.

Baroness Burton of Coventry: My Lords, before thanking the noble Earl, Lord Kimberley, it falls to me to thank the noble Lord, Lord Bruce-Gardyne for his contribution. As he said he is an ex-Treasury Minister, and those of us who listened to him today who were not Treasury Ministers will "recognise the breed", if I may put it that particular way. I should like to tell the noble Lord—and this has nothing to do with his speech this evening—how much I personally have enjoyed his articles in *The Times* between last June and today. I have not had time to digest his article on freeport today, but I am quite sure that I speak for the House when I say that we are very glad to have him. I hope that sometimes he will be able to speak to us with the authority of an ex-Treasury Minister, but not as an ex-Treasury Minister. In other words, I am trying politely to say that, although I have been delighted to hear him, I do not know whether I entirely agree with what he says. As we move on, perhaps I shall be able to say that.

I thought that the noble Lord must have been a journalist when I read his articles in *The Times*, and having chased up further details about him this afternoon I see that he was also the Paris correspondent for the *Financial Times*. Therefore, we welcome him; we are glad to have him. However, in spite of his last remarks, I do not think I would be wrong in assuming that really and truly he is not in favour of what we seek to obtain today by means of this Motion. To be perfectly fair, perhaps I should say that if it can be proved otherwise, I believe that the noble Lord would go along with it.

In common with everybody else, I want to thank the noble Earl, Lord Kimberley, for raising this matter today. I think that his timing has been impeccable. We shall only know when we come to the end of the debate whether or not it has been successful. However, I should like to comment on something which the noble Earl mentioned in opening. He spoke of Concorde and I believe he said that the Prime Minister had said she did not want another Concorde on her back. Obviously, if the Prime Minister said that—and I have seen it quoted in several places—she would mean that she does not want such a financial burden, because, even to the layman, Concorde is a brilliant example of British aeronautical engineering.

I should only like, if I may—and I brought this in quite by chance—to quote two paragraphs from a letter in *The Times* of 16th January by Mr. James Moorhouse, MEP, who, as many Members of this House will know, is the Conservative spokesman on transport in the European Parliament. I have met Mr. Moorhouse several times. Whether or not one agrees with him, there is not the slightest doubt that he knows his subject. In case anybody else mentions Concorde, I should like to quote these two paragraphs, if I may:

"It is very fashionable to say that the commercially unsuccessful Concorde is positive proof of the folly of all major projects. But it needs to be appreciated that the A.320 and the Concorde are two very different animals.

"While the supersonic Concorde was designed, as indeed was the de Havilland Comet, to push back

the frontiers of knowledge and technology, the subsonic A.320, cast in a more conventional mode, will aim fully to exploit *known* technology while offering super-fuel economy and minimal maintenance costs."

If it can do all those things I hope that it will win the noble Lord, Lord Bruce-Gardyne, on to our side.

I hope that the Government will support by offering launch aid to British Aerospace, which I believe has a 20 per cent. share in this, and which British Aerospace itself hopes will be 26 per cent. I think we are talking in terms of some £400 million plus as a loan. I thought that the *Economist* of 27th August carried a salutary warning in the article *War in the Air*, when its opening sentence read:

"The risk is that airlines will soon be able to buy any long-distance passenger aircraft so long as it is a Boeing."

That has worried quite a few of us during recent months.

That fear spreads much wider than readers of the *Economist*. I wonder whether the noble Lord, Lord Cockfield, when he comes to reply on this aspect, can say whether it is correct that the Americans want to oust Britain from the European airbus project? It would be useful if the noble Lord, Lord Cockfield, could help us there, because this is something I have heard repeated on very good authority from several sources.

The Under-Secretary of State for Trade and Industry, Mr. Butcher, made an encouraging comment in another place on 19th December, when he said at column 87 that:

"the orders and options for the A.320 are at the largest pre-launch level achieved."

An encouragement in more than words has come from three airlines, and there are probably others. British Caledonian—and all credit to it—led the way in October last year by ordering seven A.320s for delivery in the spring of 1988, with options for a further three. Earlier this month the president of Airbus Industrie announced a contract to build 10 A.320s for the French domestic line Air Inter. And the Yugoslav airline, Inex-Adria, has ordered five of the aircraft, with options for a further three.

I do not know whether the noble Lord, Lord Cockfield, when he comes to reply can also answer this point. I personally wish, and I am sure other Members of your Lordships' House would wish, that British Airways could have been on that list—I should have liked to add them to those names—instead of feeling that it could only place an order when the airbus was safely launched. Arising out of that, I should like to ask the Minister whether he feels that British Airways' decision to lease rather than buy American jets outright at the present time really gives them more scope for endorsing the A.320 in the future? I should be grateful if he feels able to comment on that.

As the noble Lord, Lord Bruce-Gardyne, has pointed out to us, obviously any new aircraft must carry some degree of financial risk where large sums of money are concerned. But the general feeling seems to be that the A.320, seating 150, will justify the optimism of those who have placed orders already, rather than the reverse. For one thing, as the noble Earl, Lord Kimberley, said, this aircraft does not stand

by itself. It stands with a group, or family, which includes the A.300, seating 265, and the A.310, seating 210.

In the summer, I returned from a civil aviation conference in Frankfurt and was fortunate enough to fly on the A.300. Personally, I have never experienced such comfortable seating and configuration on any economy flight. I do not know what it was like in the grander aspects, but I thought it was wonderfully comfortable. As of course is known by the industry—and I am sorry to keep going back to the noble Lord, Lord Bruce-Gardyne, but as an ex-Treasury Minister he is worth coming back to—the A.300 has been a success and it has reached a financial break-even point. It is important that we should remember that.

I for one, and very much as a layman, am prepared to accept the opinion of people well qualified to know that the A.320 will offer super-fuel economy and minimal maintenance costs, besides of course satisfying the new noise regulations. Some of those spare aircraft, which I was about to say are running around the world but they are lying around at the moment not being used, would not meet those minimal noise regulations which we know will come into force in 1986. I wonder whether the noble Lord, Lord Cockfield, can tell me whether it is true that the A.320 is British Aerospace's only major civil aircraft?

I feel that all of us who strongly support the European Community believe that an additional asset in all this is that in these matters we have a proven partnership with the French, German and Spanish industries and including, I believe, Belgium. Surely we would not wish, and the Government would not wish, that the A.320 should continue with new partners and minus Britain. As the House knows, we aim to build the wings plus, I am told, for the first time, virtually all the complicated wing flaps, securing some 4,500 jobs.

The noble Lord, Lord Beswick, will know a great deal more about this than I do, but it is useful that lay members know something. Then of course there is the opportunity which will be offered to Rolls-Royce. Others besides myself will have noted the comments made in another place on 19th December, by those particularly interested in this project, to the effect that it is just possible that the new Rolls-Royce engine may be ready in 1988 at the same time as the launch of the airbus.

I would not be competent to comment on a further point concerning Rolls-Royce, but I think it should be referred to. As I have asked the noble Lord, Lord Cockfield, only three simple points, perhaps he will comment on this also when he comes to reply. It was said how unwise it would be for the United Kingdom not to get its Rolls-Royce power plant certificated for the A.320. Indeed, the point was made that Rolls-Royce must now bitterly regret the fact that it never got the RB-211 certificated for the B2-B4 and the A.310 airbus. The man who spoke to me, who was very knowledgeable, said that he was sure that the company feels today that it would never make the same mistake again.

I hope that the Government will provide financial aid for this project. If they do not feel able to offer the full amount, perhaps they could do two other things in

[BARONESS BURTON OF COVENTRY.]

addition to their own contribution: first, they could persuade others in Europe to help; and, secondly, they could demand some means of independent private sector finance. My Lords, we all know really that the A.320 will be built with or without British participation. Airbus, British Aerospace and the Government have an opportunity here to seize the initiative, and I hope that we do not miss the bus this time.

6.19 p.m.

Lord Beswick: My Lords, I join in congratulating the noble Lord, Lord Bruce-Gardyne, on his maiden speech in this House. I should also like to offer my thanks to the noble Earl, Lord Kimberley, for his informed and persistent advocacy of all that is good in aeronautics. The noble Lord, Lord Bruce-Gardyne, gave some figures about the amount of public moneys put into the aircraft industry in the post-war period. I remember that some time ago I wrote a pamphlet about these moneys and I think if the noble Lord were ever to read it he would probably not disagree with a good deal of what I said.

If it is any consolation to the noble Lord, since public ownership no launch aid was asked for, none was given and, on the publicly-owned capital in British Aerospace, a proper dividend was declared each year. I am not unhopeful that that good practice will be continued in the future.

I am not absolutely convinced that the strictly commercial case for the A.320 Airbus can properly be discussed in a Chamber of this kind. But I agree with the noble Baroness and with the noble Earl that there are wider issues which are properly the concern of Parliament and which should be taken into account if a decision is made to advance public funds.

On the strictly commercial side there are obviously facts and figures which are confidential. I can imagine that the method and amount of payment by Airbus Industrie to the constituent companies for work done are probably relevant to any commercial decision, but they cannot and should not be brought into public discussion.

However, as I have said, there is a wider national interest here. It will be bad for Britain if we do not build our share of the A.320 Airbus. British Aerospace is a member of Airbus Industrie. We paid £50 million for our share of the assets when we joined. It was not a political decision to join; it was a commercial decision. In so far as there was Government pressure at the time it was to stay out, but BAe decided that it was better to be an equal partner of a European consortium rather than a sub-contractor of an American company—which latter option our embassy in Washington at the time was not backward in canvassing.

I have said that it will be bad for Britain if we back out of an Airbus Industrie decision to go ahead with the A.320 and I will give three broad reasons why I say that. First, it would be contrary to the Government's declared policy of supporting new industry based on modern technology. We are here talking about a growth industry. We are only on the threshold, as yet, of transport and communication in air and space. I

have known the time when the military side of the aircraft industry was supported by the civil side. I can well see in the next decade or so that we could return to that position, given the right decisions now.

My second reason is that it will seriously weaken the position of the British partner in Airbus Industrie if we cannot take our share of what could be the most important project so far. We joined Airbus Industrie late and I always saw the need to develop our influence and the contribution of British personnel. Improvements were possible, but we shall reverse that process of development and slip back into a second-rate partnership if we cannot keep up with the others. Indeed, I would go as far as to say that the British position as a partner of Airbus Industrie will be near impossible if we have to withdraw each time the A.320 project comes up for discussion at board or technical committee level.

Thirdly, following from what I have just said, a negative decision by us would reflect upon our standing in Europe. I have always maintained that membership of AI was a much more realistic and cost-effective exercise in European co-operation than the bureaucratic extravagance in Brussels.

I firmly support the Government's refusal to continue an open-ended subsidy for the production of overpriced commodities which we cannot sell, but if at the same time as that refusal the Government also refuse to support precisely the kind of joint industrial ventures which they advocated at Stuttgart in June then their credentials as Europeans will be derisory.

I hope the Minister will agree that those three reasons will carry some weight in the Government's consideration. But I would agree with him, with others and with the noble Lord, Lord Bruce-Gardyne, that those reasons should carry weight only on the understanding that over an appropriate period the A.320 project is judged to be a profitable venture showing a real return on the investment.

That leads to the question of who shall be the judge of potential profitability? I know of no better qualified authority than the manufacturers. I do not believe that British Aerospace would want to go ahead unless it was satisfied about the eventual return. Some will say—and I can understand the noble Lord, Lord Bruce-Gardyne, saying, as has been said in the press—that such a judgment is made easy if it is not one's own money at stake. In this case BAe will have its own money at stake. It will have a great deal of money at stake in production costs. My understanding is that the company will be committed to repaying the loan now under discussion. The precise nature of the repayment terms is no doubt a matter for negotiation, but I hope the Minister will make clear for the benefit of the critics that no one is here talking about the old style launch aid. I hope that he will make it doubly clear that there is not the slightest resemblance to the Concorde contract.

Commentators have made the point, and so did the noble Lord, Lord Bruce-Gardyne, that, in the past, very few aircraft projects have proved profitable. That is absolutely true, but it is the principal reason why the number of aircraft manufacturers has gradually dwindled. We are now nearing the situation when there will be only two major manufacturers of

mainline aircraft in the Western world. In that situation profitability for the manufacturer becomes possible, together with a degree of competition which I should still like to see, to benefit the operator. A decision to go ahead with the A.320 will mean that Europe will have one of those two remaining potentially profitable manufacturing bases.

Another commentator has suggested that the decision to launch should wait until enough machines have been sold to guarantee break even. I suggest that that is a formula for closing down the industry. It is about as sensible as saying that a motor manufacturer should not lay down a production line until enough drivers have paid a deposit on cars to guarantee success. As the noble Baroness said, and as I believe the noble Earl has already said, more A.320s have been sold than most marketeers had thought possible in today's depressed conditions. But to expect a break-even order book is just talking nonsense.

It is this very fact of the exceptionally long timescale between design study to a positive cash flow that makes it necessary and justifiable for the company to turn to the Government for funds. In that respect we are dealing here with an exceptional industry. I hope that the Minister will be able to give us reason for believing that funding will be forthcoming to enable British Aerospace to maintain its position in Airbus Industrie. I hope that he will be able to see—and I hope that the Treasury especially understand—the need to relate repayments to this long timescale which is necessarily involved. I am bound to add that if this Government, who are selling off thousands of millions of pounds of public assets accumulated over the years by successive Governments, cannot find the money for this promising venture, then it is a pretty bad outlook for Britain.

6.30 p.m.

The Earl of Bessborough: My Lords, first, I should like to congratulate my noble friend Lord Bruce-Gardyne on his most interesting contribution, even if I could not exactly agree with him. He is clearly a great asset to your Lordships' House. His eloquence and humour this evening made it clear that we shall all want to hear him again very often. It is also clear that he is no longer, at any rate, just a "Treasury toady". I do not think that he ever was; but I agree with him that if the City were to invest in this project that would be ideal. I hope that inquiries are still proceeding in the City to see whether some risk capital cannot be raised there.

I am very glad indeed to follow the noble Lord, Lord Beswick. I have discussed these matters with him at crucial moments. I remember especially 1970, when I became Minister of State responsible for aerospace. Over a period of seven years—for a short time in Government and at length in Opposition—I was spokesman for the Conservative Party in these matters. I was very glad to hear the noble Lord, Lord Beswick this evening, and I agreed with every word he said. I shall tell your Lordships later why I find that a little surprising. I agreed also with every word that my noble friend Lord Kimberley said in introducing this Motion; and also with the noble Baroness, Lady Burton of Coventry. We certainly are at one.

All the arguments have already been deployed, and I shall not detain your Lordships for too long. But, having been spokesman on aerospace for all those years, and especially at the time when, in 1969, Mr Benn, as Minister for Technology, withdrew Government support for the original A.300 airbus I recall that we, the Conservative Opposition, opposed him strongly. I remember in this connection my noble friend Lord Jellicoe and others. We greatly regretted that withdrawal, and I think that the noble Lord, Lord Beswick—almost my noble friend—probably regretted it as well. Certainly he gives the impression of regretting it now.

My point is this. I should not like to see the present Government do what I might call "another Benn" in not granting launching aid to enable Britain to make its fair contribution to this aircraft, which, as already made clear, will be the only European wide-bodied aircraft to compete with the Boeing and, perhaps, McDonnell Douglas. Having visited Seattle more than once, I need hardly say that I have the greatest admiration for Boeing's remarkable achievements in aerospace and their domination, more or less, of the world airline market. I am glad, too, that Boeing accept Rolls-Royce engines in their machines. They are our friends. Nonetheless, I should not like to see them gain a virtual world-wide monopoly which, in a curious way and in view of the anti-trust laws in the United States, I do not think that they themselves really want. European airbus or no European airbus, Boeing will do all right.

I believe strongly that Europe, the European Community, and perhaps its associated states, should be capable of putting up some kind of competition with our American friends and allies. Therefore, I support very much the arguments so ably deployed by my noble friend, by the noble Lord, Lord Beswick, and by the noble Baroness. I will not repeat all their cogent arguments, with which, in general and in principle, I agree. I hope that British Airways will keep its options open to order the plane, as British Caledonian and others have done, even as a stop gap, while in the interim they have to order some Boeings.

Although, as a Minister and as an Opposition spokesman, I was one of those who supported the building of Concorde from the very outset and hope that a larger and more economic "Son of Concorde" will ultimately be produced with our French, American, Japanese and maybe other friends, I must emphasise, like my noble friend, that this airbus is not another Concorde. As my noble friend has said, it represents a known technology in which it should be well worth investing. As he says, it is, indeed, merely a development of the original A.300 and the A.310, which have proved themselves to be highly successful as commercial aircraft. I hope, of course, that the A.320 will eventually have a Rolls-Royce engine. I was glad to see in the *Sunday Times* this week that the Government will support Rolls-Royce's participation in the five-nation project to develop the new V-2500 engine. I hope, too, that the Government will support Rolls-Royce and British Aerospace in building the engine the air-frame and, particularly, the wings—and the flaps, as the noble Baroness has said—of the A.320.

[THE EARL OF BESSBOROUGH.]

I agree very much with all that the noble Baroness said and with the letter that she read out from Mr. James Moorhouse, MEP in *The Times*. If we really wish to be whole-hearted supporters of European economic (and, to some extent, industrial) unity, I think that the Government should provide this support. This does not mean that we should not co-operate with the United States in other ways, including perhaps the building of other aircraft such as the Harrier jump jet and, particularly, as I have said, a more economic supersonic transport. In the mid-1960s, when Boeing were given the contract, later cancelled, to build America's first supersonic transport, I was in favour of bringing in Lockheed as a partner in Concorde, but neither BAC (later British Aerospace) nor Sud-Aviation (later Aerospatiale) would agree. They thought that if we did so Lockheed would take over the whole project. However, if we had had an American partner in that project, then perhaps there might have been a modest market for Concorde in the United States.

The A.320, the European Airbus, is a very different proposition for there is, as your Lordships have already said, a recognised market for it in the United States and in other parts of the world. I hope that my noble friend Lord Cockfield, for whom I have a great admiration, recognises this. If we do not give Government launching aid, then, as I see it, the wings as well as the aero engine will be built in the United States. As a result, there will be unemployment, as has already been said, to the extent of some 10,000 jobs in a number of British Aerospace establishments and their sub-contractors. That unemployment will be considerable. I agree with my noble friend that Britain must take up this challenge.

6.41 p.m.

Lord Briginshaw: My Lords, I join with other noble Lords in giving congratulations upon the maiden speech of the noble Lord, Lord Bruce-Gardyne, and I join them too in hoping that we shall hear from him again many times during the process of our business. I particularly want to congratulate the noble Earl, Lord Kimberley—I join other noble Lords in doing so—for the timing of this debate and I would seek the understanding of your Lordships in having discarded the few notes that I had prepared to participate in this timely debate.

What I want to do is to emphasise, alongside the urgency and the importance of the contribution that is being sought from the Government for the aerospace contribution itself, to underline in a complex situation the importance of viewing the whole canvas that was presented so ably by the noble Earl. Almost everything that has been said in the debate contributes towards my assessment that this is a unique debate and a unique situation which has developed, if one looks at the positions taken up by so many of us at other times. I have a feeling that the Treasury are right on some things it is possible for them to be doing at present and in some attitudes. One needs to be careful, although purposely I do not want to be word perfect in speaking off the cuff. It would be churlish of me not to indicate that perhaps the position emerging as a result of the matter before us does not lead me to say that for once

I would be on the side of the Treasury position too, because everything is tied up.

The noble Earl, Lord Bessborough, mentioned one of the things I had made a note of: how does this question affect the wider issues of European unity? I had a position which was very doubtful, to say the least of it, concerning the prospects of Europe as a whole. Here is the very essence and test as to whether things go on in a positive way or not. This is not a question of milk or mutton; it is a question of the very essence and future of the possibility of progress on the front we have in mind.

I do not submit to your Lordships that my contribution is other than a lay contribution, but I would direct your attention from the contribution made by the noble Baroness, Lady Burton, which reminded me of the maiden speech I made seven years ago. The attitudes I was seeking in that maiden speech for the RB.211 are being met in the prospects we have before us in the technology that has developed since that time—the silence of the Rolls-Royce engines and such factors. And if one were to look back at the record of the time, seven years ago, it would be worth two minutes' reading.

I have sought to see whether I could use my short time in this debate to set pointers, and particularly one pointer, which is the importance of what is involved in our connections with Europe, whatever one's views are. Secondly, certainly it is an international competitive situation, a struggle—and I use the word advisedly—that we are involved in. One cannot complain, when one talks of Boeing, that the Americans are pro-American and that the aircraft groups are patriotic. What I do complain of—at least I suspect it—is that we are not pro-British enough in a robust assessment of what we need to do. Some of the factors that came out in the noble Earl's presentation carefully drew attention to this. I would hope that Government Ministers will bring their weight to bear on these important factors, rather than worrying too much about commercialism.

The future employment situation has been brought out by your Lordships in many ways. All the factors that the noble Lord, Lord Beswick, drew attention to are involved in looking at the whole canvas, and if in the few minutes I have been able to address your Lordships I have been able to stress that, my purpose will have been served.

6.48 p.m.

Lord Marley: My Lords, I also should like to thank my noble friend Lord Kimberley for introducing this subject. It is an absolutely vital one and this debate was impeccably timed, as others have said. I should like also to congratulate my noble friend Lord Bruce-Gardyne on his excellent contribution to this debate.

I have myself travelled a fair amount throughout the world and in various types of aircraft. I should like to agree totally with the noble Baroness, Lady Burton, in that I have never travelled in a more comfortable, quiet and smooth-running aircraft than the current A.300. I really think it is a very, very fine aircraft. It is one of the few European-built aircraft to penetrate the impregnable fortress of the United States air network and I think that is most important to the European

Community, particularly because of the number of countries contributing to the Airbus.

Eastern Airlines is the airline I am referring to. They have in use at the moment 34 A.300s, and I had a report this morning from their headquarters in America. They are very pleased and satisfied with this aircraft. They find it has great "passenger appeal", as the Americans put it. They find that its operation is efficient and economical, and I think that they should be encouraged in every way, if possible, by our Government to take an option on the new A.320.

It is vital to speed up the promotion of the new A.320, particularly in view of the announcement a couple of days ago of the new Boeing 737-300 which, as reported at its inauguration, will be in direct competition with the Airbus. It is very important that the Government should take note of the announcement. I hope that they will support British Aerospace in the development of this aircraft. If it does not happen now—and I mean now—it may well be too late.

6.51 p.m.

Lord Underhill: My Lords, first, perhaps I may congratulate and thank the noble Lord, Lord Bruce-Gardyne, for his maiden speech. As other noble Lords have said, it sounded a cautionary note, which was welcome, although I did not agree with its general tenor. All noble Lords who have taken part in the debate are, with perhaps the exception of the noble Lord, Lord Bruce-Gardyne, of one view. Help is needed for the launching of the airbus. I also thank the noble Earl, Lord Kimberley, for opening the debate with a well informed speech, based upon his experience and knowledge.

This issue has been debated on five occasions in the two Houses. Two Adjournment debates were held in the other place in December of last year. A great deal of information is already available about this vital issue, therefore. My noble friend Lord Beswick, with all his experience of the industry, opened debates in your Lordships' House on two Unstarred Questions. They were held on 26th April 1982 and 5th July 1983. In the debate on 26th April 1982, the noble Lord, Lord Cullen of Ashbourne, speaking for the Government, said that an assessment of the commercial viability of the A.320 project had not yet been completed. Therefore it would be premature to take a decision. Further information from British Aerospace was awaited. However, the Government certainly intended to reach a decision with the minimum delay compatible with a proper appraisal of the case. That debate took place nearly two years ago. In the debates which took place last December in the other place, Government Ministers said that it was hoped to deliver a decision by the end of January 1984. This, therefore, is the time for decision.

Ministers have said time and time again that the A.320 is vital for the future of the civil aviation industry in Britain. I shall not give the references. There can be no disagreement that Airbus Industrie is an outstanding example of productive European co-operation. The way in which Airbus Industrie brought on stream the A.300 and the A.310 is clear evidence of that fact. I do not possess detailed knowledge of the

aircraft manufacturing industry, but it is claimed that the A.300 and the A.310 are the most economical and operationally reliable of any of the wide bodied aeroplanes. I have not heard anybody deny those facts.

As has been stressed by other speakers, both the A.300 and the A.310 have had a successful sales programme. May I remind your Lordships that over 352 firm orders have been placed for the A.300 and the A.310 aircraft by 46 airlines, with options for another 100 aircraft? It is important to note that 70 per cent. of these aeroplanes have been bought by airlines which are not partners of Airbus Industrie. This is a very important point. About 200 of the A.300 and A.310 aeroplanes are operating successfully in various parts of the world.

In the last debate, on 5th July 1983, the noble Lord, Lord Lyell, at col. 553 said:

"We are most gratified by the successes—I stress 'the successes'—which Airbus Industrie has achieved in establishing a position second only to Boeing as a manufacturer of wide-bodied civil aircraft and also in demonstrating that a European collaborative venture can rival the major United States manufacturers".

That was obviously an agreed Government statement. Almost precisely the same words were used by Mr. John Butcher, the Parliamentary Under-Secretary of State for Industry, in a debate in the other place on 19th December 1983. Therefore the Government recognise the success which has already been achieved and the importance of the programme to the British civil aviation industry.

There seems to be no argument that there will be a demand throughout the world for the replacement of many of the ageing and noisy aircraft. Government Ministers agree that there will be a demand for new aeroplanes in the next 20 years. Airbus Industrie has carried out research with airlines throughout the world into the type of aircraft that is required to meet these needs. Airbus Industrie claims, and I have no reason to doubt it, that the A.320 fully meets the requirements of the world's airlines, as expressed in the survey they have carried out. They have also carried out a survey which suggests that, even at the lowest figure, only 30 per cent. of the possible demand for aircraft would mean that about 700 of the A.320 aeroplanes would be required.

Reference has been made to the 88 orders and options which have already been secured for the A.320. I understand that until today there were 47 firm orders and 41 options, but I was told only this morning that another four firm orders have been placed and that another four options have been taken up by an existing A.310 customer. I should like noble Lords to keep that point in mind.

In the debate on 19th December in another place, Mr. John Butcher joined in the congratulations upon an order for five A.320s having been placed by the Yugoslavian State Airline. He said:

"It is further evidence of the commercial appeal of the A.320".

He agreed that it was absolutely right to say that orders and options for the A.320 were at the largest pre-launch level achieved. Mr. John Butcher recognised that an unusually large pre-launch order had been placed.

Airlines do not place orders on grounds of sentiment. Reference has been made to British

[LORD UNDERHILL.]

Caledonian Airways. Sir Adam Thomson and his board did not place that order merely on grounds of sentiment. I was present when Sir Adam Thomson was asked whether British involvement in a European enterprise was a factor in their decision. He said that the decision was taken almost solely on the commercial needs of British Caledonian and that it was necessary for them to have the A.320. I hope, as other noble Lords have already said, that British Airways will also place orders for aircraft. Airbus Industrie should be mentioned, as they offered to provide interim aircraft to BA on the same lease arrangements as those offered by Boeing.

In passing, perhaps I should say that many countries would love to enjoy the British situation of having a very efficient aeroplane manufacturer, as we have in British Aerospace; one of the world's leading aircraft engine manufacturers, as we have in Rolls-Royce; and one of the leading state airlines, as we have in the form of British Airways. I regret that we do not have all the collaboration between those three bodies which I should like to see, but there is not the slightest doubt that an order from British Airways will greatly enhance the prestige of the whole Airbus Industrie programme. As other noble Lords have said, there is already development in progress at Rolls-Royce on an engine which will be suitable for use in the A.320 programme.

My noble friend Lord Beswick emphasised the position of British Aerospace; that they believe this is a good aeroplane. As laymen, we must take note of those people who understand what is required in the production of an aeroplane. I should like to emphasise, as other noble Lords have done, that up to now there has been no development support given to British Aerospace, or required by British Aerospace, for their part of the production of the A.300 and A.310 programmes.

As more than one noble Lord has said, if the Government do not help with this matter, and if British Aerospace have to withdraw, nevertheless the A.320 programme will continue with the share of British Aerospace being offered to other members of the partnership. The noble Lord, Lord Bruce-Gardyne, asked a question about returns. When my noble friend Lord Ponsonby of Shulbrede spoke in the debate in July last year, he referred to the loans towards production costs incurred which Airbus Industrie had already repaid.

Airbus Industrie have made it quite clear that the share of the A.320 programme falling on British Aerospace might be nearer 26 per cent., rather than the 20 per cent. they had in the previous programme. I have heard Government Ministers echo that that could be so. We must bear in mind that British Aerospace and Airbus Industrie buy equipment from some 40 other British companies. We have also possibilities for Rolls-Royce engines because Airbus Industrie have made it clear that they will welcome the opportunity to offer the alternative Rolls-Royce engine to customers instead of that which is currently used.

Ministers have time and time again expressed the view that the success of the A.320 is vital for the future

of our aerospace industry. One can refer to numerous speeches to prove that fact. If that is so, and if Ministers do consider it vital for the future of our aerospace industry, then what will be the situation if we do not participate in the A.320?

It is essential that our participation in this great European construction effort should continue. It is generally agreed that production of this type of aircraft is far too large a project for any single European country. Therefore, if we did not participate and there was not the Airbus Industrie effort in our programme, then there would be sole reliance upon Boeing production. The Government decision could give a considerable impetus to Airbus Industrie. It could give great impetus to the A.320 programme, and it could have a considerable effect upon sales. There is clear evidence that the A. 300 and A.320 programmes have been successful and are continuing to be successful. There are no reliable grounds for believing that the A.320 programme could not be the same.

Perhaps I may conclude by quoting what the noble Lord, Lord Lyell, said on 5th July 1983, speaking on behalf of the Government:

"The Government recognise that the future of British Aerospace as a civil aircraft manufacturer is now very closely linked to participation in viable new air industry projects. The valuable opportunities which the A.320 could present to British engine and aircraft equipment manufacturers is also clearly recognised".—[*Official Report*, 5/7/83; col. 554.]

What I believe noble Lords are asking tonight is that that recognition should now be backed by real, positive assistance to the launch programme.

The Chancellor of the Duchy of Lancaster (Lord Cockfield): My Lords, may I start by congratulating my noble friend and former colleague Lord Bruce-Gardyne on a thoughtful, well-argued and well-documented maiden speech. He brings to this House great experience in economic affairs, a penetrating insight into the activities of government, and a facility of expression which makes even the most trenchant criticism a pleasure to listen to.

As my noble friend Lord Kimberley, who initiated this debate, will readily appreciate, I am not in a position to make any announcement of the Government's intentions this evening. Indeed, I believe that my noble friend recognises that that is so. Nevertheless, the debate has served the valuable purpose of enabling us to survey the field as a whole, and it has given your Lordships an opportunity to make your views known. I can assure all noble Lords who have spoken that very careful consideration will be given to everything that has been said.

When British Aerospace was privatised in February 1981, it was stated that the company would have the same eligibility for Government finance as other companies in the private sector and as its predecessor companies had prior to nationalisation. That remains the position. We have made it clear that we are prepared in principle to consider launch aid for participation by British Aerospace, and indeed by other aerospace companies, in viable new projects. The present application by British Aerospace for launch aid is in respect of its share of the development costs of the A.320 Airbus, and this will need to be judged on its merits.

It is important that I indicate the basis on which we approach these matters. Launch aid is not a subsidy—at least, it is not intended to be a subsidy, although it has very often ended up that way. Its intention is that when an enterprise operating in a field of public importance has a commercially viable proposition, the development costs of which are very heavy and which have to be incurred before—and sometimes long before—revenue from the project accrues, then in appropriate cases Government will assist by providing launch aid which will help to meet development costs and which will be repaid out of revenues when they accrue.

There is a parliamentary requirement that one should vote in accordance with one's voice. There is a commercial equivalent. One of the prime tests of commercial viability must be whether the enterprise promoting the project is prepared to back it with its own money. That is why when launch aid is sought the company concerned is usually expected to bear at least 50 per cent. of the cost itself. This risk sharing between the company and the Government means that the company still has a real incentive to ensure that the project does make sufficient money to meet the full development costs, including repayment of launch aid, as well as making a reasonable profit. To cover the whole of the development costs by launch aid would leave the company with no such incentive.

As my noble friend Lord Bruce-Gardyne has said, the history of launch aid to the aerospace industry over the last 30 years or so has been far from a happy one. On the airframe side only the Viscount has been sold in sufficient numbers for the Government aid to have been repaid in full. Of the total launch aid or equivalent provided, revalued at current prices, only about one-seventh has been repaid. On the civil aero-engine side, only the Spey, Avon and Tyne have repaid the Government investment.

This is not in itself an acceptable situation, and the position is made even more difficult by the enormous escalation of the cost of new aircraft development and the competing claims which exist in the field of public expenditure. It is essential to realise just how large the sums sought for aerospace programmes are. The total development cost of the A.320 at outturn prices is put at something like £2,000 million. British Aerospace are now seeking some £460 million at outturn prices in launch aid. This is 100 per cent. of British Aerospace's share of the total development cost.

In addition to the launch aid now being requested by British Aerospace, Rolls-Royce in their turn have submitted an application for launch aid of £113 million at 1983 prices for the V.2500 engine programme. The amount at outturn prices will, of course, be substantially greater than that. Nor is this the end of the story. Launch aid of £70 million has been approved for the Rolls-Royce 211.535/4 engine and £41 million for the Westland WG.30 helicopter. Still to come is the EH.101 helicopter, a joint Anglo-Italian project. The amounts of money involved, both applied for and already given, are therefore very substantial.

Firm orders for the existing A.300 and A.310 including deliveries already made, have totalled some 350 aircraft from 46 airlines around the world. This

gives Airbus a valuable customer base on which the A.320 can draw. This, I imagine, is one of the points my noble friend Lord Kimberley had in mind when he said that there was a market for the A.320 which is presented to us on a platter. But we must equally face the fact that the United States manufacturers who currently dominate this section of the market will offer the strongest competition. The rolling out of the new Boeing 737.300 last Wednesday amply illustrates that.

The noble Baroness, Lady Burton, asked whether it is true that the Americans want to oust Britain from the Airbus consortium. Obviously there will be those in the American industry who would prefer to see the United Kingdom industry not participate in the A.320 project, but I am assured that Boeing themselves have denied that this is their view. It follows that with the development costs of the Airbus 320 likely to come out at some £2,000 million, as I have said, high volume production running at the level achieved in recent years only by the major United States companies will be essential to recover the investment involved.

Of key importance for the A.320 will be improvements in productivity to match the levels achieved in the United States aerospace industry. The question whether such improvements can be achieved must be one of the major factors in deciding whether launch aids should be given. What we have to face is that the civil aviation market is almost wholly denominated in United States dollars regardless of where the aircraft are built or sold. The selling price of the A.320 will, therefore, be conditioned by the dollar price of competing United States aircraft. The economic viability of the A.320 will thus be influenced by the pricing policies of United States manufacturers and by movements in currency exchange rates. We need to match United States levels of productivity if we are to have a product saleable in world markets.

Lord Beswick: My Lords, will the noble Lord allow me to intervene? He is emphasising this point of productivity and the importance of the exchange rates. To what extent is the situation with the proposed 320 any different at all as compared with the 300 and 310, where we have matched the Americans? Why does he not accept the fact?

Lord Cockfield: My Lords, the noble Lord is supporting the point I am making, no doubt much to his surprise. It is very important that we do match the United States levels of productivity, and I am glad that he entirely agrees on this point. I do not understand really what the noble Lord is arguing about, because this is clearly one of the factors that have to be taken into account. The evidence produced by British Aerospace on this point is being considered very carefully.

Lord Beswick: My Lords, it is obvious that the noble Lord did not understand what I was talking about, otherwise he would not have given that answer. The noble Lord was advancing that the difficulty with a positive decision on the A.320 arises because, he said, we have to match productivity; and he said it in such a way as to suggest that there was doubt about this. I am asking him, will he not accept as evidence the fact that we have matched them in productivity in the 300 and the 310?

Lord Cockfield: My Lords, I am not in a position, off the cuff, to give actual figures for productivity on the A.300 and the A.310. It nevertheless remains absolutely true that one of the crucial issues is that we must match productivity. The noble Lord is saying that he is certain that we will match United States levels of productivity. If we do, that is splendid, but it must be, and it must continue to be, a matter of considerable concern in this field. This is particularly so because we are looking at a 20-year programme, and it would be quite wrong to believe that United States levels of productivity will remain exactly where they are. The point I am putting to the noble Lord—and I really do not know why he is disputing this—is that we really need to look at all of the factors involved; and this we are doing. We look at them with an open mind, and I hope the noble Lord does the same.

May I go on to a further point here. The share of the A.320 programme for which it is proposed British Aerospace should have design responsibility is about 26 per cent., which is somewhat larger than their 16 to 18 per cent. stake in the current programme. Although the work share is based primarily on the design and manufacture of the wings, as was the case with the A.300 programme, British Aerospace would have overall control of the complete wing design, and in addition responsibility for the undercarriage and load alleviation system.

As a full partner in Airbus, the United Kingdom is entitled to look for a share of equipment broadly proportionate to our partnership share. We recognise that there are historical and commercial reasons for the low levels of participation by British equipment suppliers in the original A.300 programme. There have been some modest improvements in our share in the A.310 and A.300-600. However, there is scope for further improvement in this area, and if Government support for the A.320 programme is given we should want to ensure that British equipment companies, which can offer commercially and technically competitive products, have a fair opportunity to participate in the programme.

The depth of the recession which the air transport industry has recently experienced and the consequent financial problems facing the great majority of the world's airlines have inhibited them from committing themselves to purchases of new generation aircraft for delivery some five years or so from now. Airbus Industrie has therefore faced difficulties in obtaining launch orders for the A.320. But the A.320 does have the advantage that it is aimed predominantly at replacement of existing aircraft rather than on a market sector dependent upon future traffic growth.

The British Caledonian order for seven A.320s is encouraging; and it is the response of the airlines like British Caledonian operating in a highly competitive market environment which will determine whether the A.320 will be commercially attractive. In all, 47 orders and 41 options have been obtained to date. I gather that the additional orders and options mentioned by the noble Lord, Lord Underhill, will not, in fact, be finalised and announced until mid-February, but that does not significantly alter the total figures.

However, it is important to remember the sort of numbers involved in the successful United States civil aircraft programmes. The Boeing 727 production line has just closed after the sale of some 1,800 aircraft: the one-thousandth Boeing 737 has just been completed. Over 1,000 DC9's have been sold. The A.320 will likewise need to achieve very substantial sales if it is to provide an adequate return on investment.

Initially the A.320 is being offered with the derivative CFM56-4 engine. But we believe that the aircraft's sales potential will be maximised by the availability of an advanced technology engine to complement the advanced technology airframe specification. The V2500 engine, in which Rolls-Royce would have a 30 per cent. stake, thus offers valuable prospects for the A.320 in a new technology engined version. The companies concerned are studying whether the V2500 could be available to match the A.320's projected 1988 entry into service date. That answers the specific point raised by the noble Baroness, Lady Burton of Coventry.

Rolls-Royce have submitted an application to the Government for launch aid in respect of their participation in the V2500 engine programme and a decision on this will be taken broadly on the same timescale as on the A.320 application.

There is one further point, raised by the noble Baroness, Lady Burton of Coventry, relating to British Airways. The British Airways statement which announced the Boeing 737 short-term leasing arrangements specifically pointed out that these provided the airline with the flexibility to review, without long-term commitment, its aircraft requirements for the late 1980s and the early 1990s, when the next generation of short-haul aircraft such as the A.320 are expected to become available.

Of the four prospective partners in the Airbus 320 consortium, France and Spain—and Spain has a relatively small share—have specified their willingness to support the project. Germany, like ourselves, has not yet reached a decision but is likely to do so very shortly. I appreciate the concern and hopes of all those involved in the civil aerospace industry about this matter. These concerns and hopes have been expressed in your Lordships' House this evening, as they have on previous occasions. I assure my noble friend, and all your Lordships who have spoken, that the most careful consideration will be given to what has been said this evening. My noble friend's felicity of timing means that your Lordships' views will form part of the input into the decision.

The Earl of Kimberley: My Lords, first, I should like to congratulate my noble friend Lord Bruce-Gardyne on his maiden speech. I also thank him for the very kind words he said about me. I am sure that I speak for the whole House when I say that we all hope we shall hear a lot more from him. I agree with him that sales must achieve a commercial return and, like that noble aeroplane the Viscount, I am sure that the A.320 will. I agree with every word said by the noble Baroness, Lady Burton of Coventry. Would that I had her gift of oratory, because she puts my case much better than I can. I was very encouraged by what the noble Lord, Lord Beswick, said about the money which has gone to British Aerospace in the past four years. I thought he

was completely right in emphasising that what is needed is a wider national interest. We joined Airbus Industrie perhaps too late, but at least we got there. Whatever we do we must not reverse the decision now. The noble Lord asked, "Who is to judge?" and "Who better to judge than the manufacturer?" If noble Lords will bear with me for a moment, I should like to quote what Sir Austin Pearce said in his New Year message to British Aerospace in *British Aerospace News*:

"So we have to demonstrate we've got a good product and are prepared to produce it in a way that makes it really competitive with Boeing, because that's who we're up against. I think we can. I am optimistic we can.

"We do, however, require an awful lot of support from the work force, and provided we can get that then I am quite clear that the outlook for the A.320 will be encouraging. But we've also got to convince the Government to help us with launch aid. If we can't do that, then we've got problems, very severe problems.

"I'm hoping that it won't be too long into the New Year before we hear the Government's decision, and then I'm hoping—but, of course, I can't guarantee it now—that we shall be able to go ahead."

I think that those are probably very prophetic and true words, because Sir Austin Pearce is a very capable, commercially minded and able business man.

My noble friend Lord Bessborough again emphasised how right we must be about Europe. It is only if we stay with Europe that we can have any competition with the United States. There is no doubt that competitiveness is a good thing.

I particularly liked the contribution of the noble Lord, Lord Briginshaw. I thought he made a wonderful speech. He hides his light under a bushel in saying that he is a layman. He knows a lot about Rolls-Royce engines and a lot about Europe. He is right to say that the only people who will be pro-British are us, the British. We must be more pro-British. I liked what was said by my noble friend Lord Marley. He has flown all over the world in many types of airliners. He knows a lot about the Airbus, and is right in what he says.

The noble Lord, Lord Underhill, referred to the five debates we have had in the two Houses. We must have productive European co-operation. He mentioned what my noble friend Lord Lyell and the Under-Secretary of State at the Department of Trade and Industry, Mr. John Butcher, said on 19th December 1983. I want to emphasise what he said. He spoke about the importance of the A.320 programme. He went on to say that we have the largest pre-launch level for an aeroplane. I think that we should have a much larger pre-launch level if the industry knew that we would give British Aerospace the launch aid that it requires. We must not forget that 40 other companies are affected by this.

I did not expect my noble friend the Minister to give me an answer tonight. I am sure that he and many others will have noted the feeling in your Lordships' House tonight. Last night as I was leaving the House I saw my noble friend and said, "We are going to do battle tomorrow evening". He said, "No. We are going to bandy words". I think that we have done that fairly successfully this evening.

I thank noble Lords in all parts of the House who have participated in the debate for their support. It can leave no possible doubt in the Government's mind that, if democracy is to work and the House of Lords

required that launch aid be given to the A.320, it would be. I beg leave to withdraw my Motion for Papers.

Motion for Papers, by leave, withdrawn.

UNESCO Conference

7.31 p.m.

Lord Vaizey rose to ask Her Majesty's Government whether they are satisfied with the outcome of the 22nd session of the UNESCO General Conference.

The noble Lord said: My Lords, so far as I can discover, this is the first time that the subject of UNESCO has been raised on the Floor of either House for a considerable time. As the organisation is at a turning point in its affairs, I think that it is an appropriate occasion to put a number of specific questions to the Government about British participation and policy. They may well welcome the opportunity to take counsel with your Lordships on the matter. May I say how much we welcome back to the Front Bench from her journeys my noble friend Lady Young. She has been to Grenada and the Falkland Islands. Every troubled island in the world seems to have received a visit from my noble friend this Christmas and New Year.

The five specific questions that I want to put to my noble friend—and I have given her notice of them—are as follows. First, are the Government satisfied that, with other like-minded Governments, we have exerted sufficient pressure to contain the budgetary expansion of UNESCO? Secondly, are they satisfied that every effort is being made to restrain the extravagance and inefficiency at UNESCO's headquarters in Paris? I do not speak about the work in the field. Thirdly, are they satisfied that Mr. M'Bow has proved an effective director general of this United Nations agency, and what attitude will they take to his forthcoming campaign for re-election? Fourthly, are Her Majesty's Government satisfied that the threat to the free flow of information caused by UNESCO's proposed third world censorship programme has been staved off? Lastly, are the Government satisfied that the serious damage to human rights entailed in UNESCO's support of so-called people's rights has also been limited?

Behind these five specific questions lies a more general anxiety. It is this. Successive Western Governments have not taken UNESCO seriously. It has been allowed to become a major centre of anti-Western agitation and propaganda. When Israel was expelled from UNESCO in the mid-1970s the United States, under the then presidency of President Carter, withdrew its support and Israel was promptly re-admitted. Now the United States has finally announced that it will resign from the organisation.

I speak with 25 years experience of UNESCO. Many of us feel that, on balance, other Western Governments, including our own, should also cut their losses—though I must admit that the Foreign Office has already announced that we shall not withdraw. I wonder whether that decision is correct and whether it is not a bit precipitate.

CC MASTER SET

Aerospace File: A320



10 DOWNING STREET

From the Private Secretary

24 January 1984

Lee Sand,

Barry Jones, M.P., saw the Prime Minister today to discuss the announcement by British Aerospace of 400 redundancies at their Broughton Works. Your Minister was also present.

Mr. Jones said that although there had been some good news for jobs in his area recently - the announcement by the Secretary of State for Wales of a new chemical plant in the Deeside Industrial Park was an example - such jobs were not coming in sufficient numbers to offset the losses over the last few years. The closure of the Shotton Works had been followed by the closure of the local office of the Welsh Water Authority and a power station. As a result there were 3,500 long term unemployed in his constituency of whom 1,000 had been unemployed for three years or more. The unemployment rate was about 20 per cent.

It was against this background that the decision as to whether or not to give launch aid to the A320 needed to be taken. Without launch aid there could be up to 9,000 redundancies nationally in British Aerospace, 1,000 or more of them out of a workforce of 4,300 at Broughton. Launch aid was also necessary if we were to preserve a civil aviation capacity within this country without which the market would be totally dominated by Boeing. The other partners in the A320 had been given launch aid. Mr. Jones went on that if launch aid were given for the A320 he hoped that a considerable part of the work resulting from the A320 should go to Broughton which had an impressive record of productivity and industrial relations. Moreover, Broughton currently provided a considerable number of apprenticeships without which skilled training in the area would be lost.

/The Prime Minister

The Prime Minister noted that the redundancies announced by British Aerospace were due to a slow down in work on the A310 for which the market had not been as great as had been hoped. The Government was considering its decision on launch aid for the A320 and a decision could be expected within the month. The Prime Minister said that she was anxious to retain for strategic reasons an aerospace capacity but the difficulty at present was that so many of the cost and revenue assumptions were "guesstimates". Mr. Butcher pointed out that no-one could yet be certain of the size of the market for the A320: if the expectations of British Aerospace were not fulfilled a substantial loss could be made. Nevertheless the Prime Minister said that she was aware of the very considerable interest in the A320 and British Aerospace had made their own position very clear. She noted however that were a decision on launch aid to be favourable she could not decide on the allocation of work within British Aerospace: that was a matter for the management. Concluding the meeting, she noted that Mr. Jones had handed in a petition some days previously and she would be replying to him as soon as possible.

X. | I should be grateful for your advice on whether the Prime Minister ought to wait until a decision has been made on the A320 before replying to Mr. Jones or whether a brief interim reply noting the points that he raised would be preferable.

I am sending a copy of this to Colin Jones (Welsh Office).

Y
Tim Flesher
Tim Flesher

Tim Flesher

Dr. David Saunders
Department of Trade and Industry

E.R.

CB

Briefing not needed.
we have enough on
file AF 26/11

Mr Turnbull

Spoke to Sir Austin's
Sec. He will come
in on Tuesday 31
January at 12.15.

CR.

26/11

Prime Minister

SIR AUSTIN PEARCE

for 30/1/84

Briefing?

Sir Austin has asked, with some trepidation, but also with conviction, that you should allow him to come and see you for a short talk about British Aerospace in general and the Airbus issue in particular.

He feels that the presentation made to you here was too rushed for the key issues to emerge with sufficient clarity and he feels it is essential to brief you tête-à-tête more fully. Could you let him have half an hour sometime reasonably soon, subject to your diary commitments?

MA

Yes not

MICHAEL ALISON

23.1.84

SUBJECT

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

File DSG
cc HOTTsy
Mr Alison MP
Mr Blair -
Blair Unit
18 January 1984

Dear John

A320 AIRBUS

The Prime Minister yesterday met representatives of the Conservative Aviation Backbench Committee. Present were: Mr. John Wilkinson, Mr. Cranley Onslow, Mr. Kenneth Warren and Mr. Michael Colvin. Mr. Lamont and Mr. Alison also attended.

Mr. Wilkinson set out the case for the A320. A market for a 150 seater aircraft had been clearly identified. Obsolescence, fuel economy and tighter noise regulations would require airlines to replace around 3,000 planes of this kind by the year 2000. He believed Airbus Industrie could gain a sufficient share of this market to be commercially successful and BAE could repay the launching aid of around £440 million. Airbus Industrie was well established and had already sold 350 planes to 45 customers. The manufacture of large aircraft was coalescing on two groups, Boeing and the European Consortium. Lockheed and McDonnell Douglas were retiring from this market. He thought it vital that Europe and the UK industry should remain in this market. If BAE dropped out at this stage they would find it very difficult, if not impossible, to get back into this market. The decision was therefore one of strategic importance. He pointed out that the A320 already had 88 orders, more than either of the two earlier Airbus planes had at the time they were launched. UK participation in the A320 would increase the chance that Rolls Royce would be able to get the V2500 engine on to the plane. He therefore strongly urged the Government to support this project.

The Prime Minister said that she very much wanted the Airbus to succeed and she recognised the need to have a major aircraft industry on this side of the Atlantic. Nevertheless, the sums being sought in launch aid both for the Airbus and Rolls Royce were extremely large and it was therefore essential that the economic case be thoroughly examined. She had not, as yet, seen a watertight case made out. The indications were that even with sales of 700 aircraft (twice what the two existing aircraft had sold in ten years) the project would earn a very low rate of return. She was also unhappy about providing launch aid of 100%; she felt that in principle the Company should provide some of this.

/ Mr. Onslow

CONFIDENTIAL

AB

Mr. Onslow argued that Airbus was not another Concorde. The market for the A320 had been clearly identified and the estimates of the numbers of planes required were endorsed by almost all participants in the industry. Mr. Colvin argued that, in addition to replacement, planes would be needed to meet rising traffic. Airbus was particularly well placed as it had a large market share outside of the United States where growth was likely to be fastest.

Mr. Warren pointed out that airframes represented only about 35% of the total cost of a finished plane - the rest was represented by the cost of engines and equipment. It was important to ensure that UK industry had the fullest opportunities to supply equipment for this project. If the UK participated it should insist that the Heads of Agreement should provide for competitive bidding. He also felt that the UK should insist on changes to the management structure of the Airbus Consortium. Finally, he urged an early decision as, without it, BAe would be forced to declare redundancies. (Mr. Lamont pointed out that there could, in any case, be redundancies shortly at Chester but it would be wrong to attribute these to the failure to decide on the A320. They were in fact attributable to a slow-down in work on the existing planes). Mr. Warren urged that the best possible managers should be put in charge of the UK end of the project; he recommended Sir Raymond Lygo and Mr. Glasscock.

The Prime Minister said that one of the difficulties faced by the Government was that it was difficult to switch expenditure from those industries which were currently heavily supported, e.g. steel, shipbuilding and agriculture, in order to put more resources into high technology industries. She said she would be looking for the support of the Committee in this process. Summing up, the Prime Minister thanked the members of the Committee for setting out the case and said that their arguments would be fully taken into account when the Government came to make its decision.

Andrew Turnbull

John Alty, Esq.,
Office of the Minister of State (Mr. Lamont),
Department of Trade and Industry.



PRIME MINISTER'S MEETING WITH CONSERVATIVE AVIATION COMMITTEE
17 JANUARY 1984

A320 AIRBUS

Line to take

1. The Government fully recognise the strategic importance of the A320 for British Aerospace's future as a civil aircraft manufacturer.
2. There will undoubtedly be a very large market for aircraft of the A320 type over the next 25 - 30 years and we very much hope that the A320 - predominantly in a V2500 powered version - will win a substantial share of that market. Though British Aerospace and Airbus Industrie express confidence that the project will be a commercial success, they also acknowledge that there are risks and that competition from Boeing will be intense.
3. Launch aid would involve very substantial public expenditure. British Aerospace have assessed their share of the A320 development cost at some £440 million in outturn prices. At a time when the Government are faced with a wide range of competing claims for the limited funds available, it is absolutely essential for us to ensure that the best possible value for money is obtained in the use of public funds.
4. Before committing financial support to the A320, we must be satisfied that the project has sound prospects of commercial viability and deserves priority over other calls for Government aid. In the past, there have been far too many civil aerospace programmes on which it has not been possible to achieve an adequate rate of return on the very large sums invested in them by Government and by the manufacturers themselves. In



effect we were too often building aircraft for prestige rather than profit. This is a luxury we can no longer afford given the enormous costs of new aircraft programmes. It is for these reasons that we have been closely examining the marketing and financial aspects of the A320 proposals.

5. There are encouraging signs of the A320's commercial appeal. Orders for 47 aircraft with a further 41 options have already been placed by 4 airlines in advance of a full commitment to proceed with the project. The orders from British Caledonian and from Yugoslavia, though not large, point to the A320's attractiveness to airlines which are not "captive" customers for Airbus aircraft. But it is also important to bear in mind that upwards of 700 A320s will need to be sold during the 15-20 year life of the programme to achieve an adequate return on the huge total investment required.

6. As a Government we must also consider very carefully the extent to which it would be appropriate to contribute to the funding and the basis on which the risks might be shared equitably with British Aerospace. It is neither right nor logical that the Government should shield a major private sector company from market forces and disciplines by underwriting - to the extent sought in many quarters - the risks of the A320 programme.

7. We are fully aware of the importance which the Airbus industrial partners attach to protecting the projected Spring 1988 entry into service for marketing and competitive reasons. Evaluation of the British Aerospace's launch aid application is proceeding as a matter of urgency and we expect to reach a decision very shortly. In reaching that decision, we shall take account of the employment implications for British Aerospace and the UK aerospace industry in general and also of the importance of retaining technological expertise and capabilities in this country.



SYNOPSIS OF BAE A320 LAUNCH AID APPLICATION

- a. Total A320 project development costs: £1,004m (January 1982 economic conditions).
- b. BAe's share of these development costs: 26% or £261m (Jan 1982 e.c.)
- c. plus BAe education costs: £58m (Jan 1982 e.c.)
- d. BAe's launch aid request is for 100% of b) + c) £319m (Jan 1982 e.c.)
- e. At January 1983 economic conditions (as used in Rolls-Royce V2500 case), this represents: £345m
- f. BAe justify 100% government financing on the grounds that they have borne, without launch aid from HMG, the development costs of other civil programmes (146, Jetstream 31, Airbus A310 and Airbus A300-600).
- g. Assuming 8% inflation, BAe translate their launch aid bid into the following schedule of expenditure in outturn or cash terms:

	£m
1983	7
1984	55
1985	73
1986	86
1987	95
1988	84
1989	46
1990	11
1991	4
	461

From 1989, these HMG payments would be offset by levy receipts so that the peak HMG "outflow" would be £439m by the end of 1989.

- h. BAe calculate that, on their own central assumptions (including an exchange rate of £1 = \$1.60 and sales of 700 A320s up to 2002), the real rate of return on the project (without launch aid) would be 4.2%.

440



PRIME MINISTER'S MEETING WITH CONSERVATIVE AVIATION COMMITTEE:
17 JANUARY 1984

A320 AIRBUS

Background Notes

A320 and the question of Government financial support for British Aerospace's participation in the project have in recent months attracted substantial interest in Parliament and in the Press. Latterly this has been given additional stimulus by the lobbying efforts of the aerospace trades unions and less directly by the Chairman of British Aerospace himself.

2. In December there were two debates in the House of Commons urging Government support for the A320. Both were initiated by Conservative members, the first by Mr Jonathan Sayeed MP as the motion for adjournment on 2 December; the second by Mr Robert Hayward MP in the debates following the Consolidated Fund Bill on 19 December. On each occasion, several Conservative members expressed strong support. The Earl of Kimberley has successfully bid for a similar debate in the House of Lords. This will take place on 25 January. In addition to those participating in the Commons debates, a further 9 Conservative members have written to DTI Ministers in recent weeks urging that Government support be made available to BAe.

AIRBUS INDUSTRIE

3. Airbus Industrie (AI) is a 'Groupement d'Interet Economique' constituted under French law and it has similarities to a consortium or partnership. The four partners in AI are Aerospatiale of France (with a 37.9% share), Deutsche Airbus of West Germany (37.9%), British Aerospace (20%), and CASA of Spain (4.2%). In addition, Fokker of the Netherlands and Belairbus of Belgium are risk-sharing associates of AI.

4. The current Airbus programme basically comprises two aircraft types:-

250.
→
The A300, which is a 250-270 seat wide-bodied short/medium haul airliner, entered airline service in 1974. Orders for this aircraft currently total 244 and some 220 are already in service with 35 airlines.

The A310 is, in broad terms, a smaller 210-seat version of the A300 incorporating more advanced technology. The A310 made its first flight in April 1982 and entered airline service in April 1983. Orders for the A310 currently total 108 and 16 aircraft have been delivered to date.



Orders for the A300 and/or A310 have been received from 46 airlines. In addition to the two aircraft types now flying, AI is developing derivative versions of each:-

The A300-600 incorporating more advanced technology (much of it drawn from experience with the A310) and offering modest increases in passenger capacity and range. The first A300-600 is scheduled to make its maiden flight in July 1983 and to enter service (with Saudia) in March 1984. With the deep recession in the air transport industry, sales of the A300-600 have been slow with firm orders for only 16 aircraft yet received.

The A310-300, a longer-range version of the A310 (incorporating an extra fuel tank and further technological improvements) principally designed to match the longer range capability of its direct competitor - the Boeing 767. Design definition of the A310-300 has recently been completed and an initial launch order obtained from Swissair for entry into service in late 1985.

BRITISH AEROSPACE'S ROLE

5. British Aerospace (BAe) became a full member of AI on 1 January 1979. Prior to this, the company was a sub-contractor, Hawker Siddeley having developed and produced the A300 wings on a private venture basis. BAe continues to participate fully in the A300 programme and has developed and is producing the wings for the A310.

6. BAe have received no direct Government financial support for their development work and participation in the production programme of either the A300 or the A310. But the then nationalised Corporation received £50m from Government for the UK's "entry fee" into the Airbus partnership and other injections of public dividend capital were no doubt less formally applied in part to meeting other such costs. By contrast the French and German Governments have met the full development costs of their industrialists' share in the A300 programme and are doing the same for the A310 programme.

PROPOSED A320 PROGRAMME

7. The A320 is designed as an advanced technology fuel efficient replacement for the present generation of narrow-bodied aircraft such as the Boeing 727, the DC9 and the BAC1-11 which are to be phased out due to increasing fuel costs and more onerous noise restrictions from the late 1980s. The projected entry into service date for the A320 is Spring 1988.



8. Though a large potential market for aircraft within the general A320 specification has been clearly established (assessed at upwards of 2500 aircraft), no positive commitment to launch the A320 has yet been made by AI or the Governments of the partner countries.

9. The strategic importance of the A320 to BAe is recognised. Major civil aircraft programmes are now very few in number and very large in scale and the new technology 150-seat aircraft market could well represent BAe's only chance of participating in a major new civil project for the next decade and possibly much longer and it is clear that without the A320 BAe's civil labour force and design capability will decline very substantially.

10. Orders and options obtained to date for the A320 are:-

	Firm Orders	Options
Air France	25	25
Air Inter	10	10
British Caledonian	7	3
Inex Adria (Jugoslavia)	5	2
	<u>47</u>	<u>40</u>

AI are continuing negotiations with several other airlines for launch orders but the climate is not easy. The recession in air transport and the financial problems which the great majority or the world's airlines have been experiencing have so far inhibited them from committing themselves now to purchases of a new generation of aircraft for delivery some 5-7 years hence.

BAe PARTICIPATION IN A320

11. BAe will be responsible for the design of the wing and for the undercarriage and load alleviation system, representing a 26% share of the programme though they would expect to sub-contract some 4% of their share to other (non-partner) manufacturers. BAe's share of the development costs would be £261m at January 1982 economic conditions equating to some £440m in outturn cash terms (assuming inflation at 8% pa) over the six years 1984-89. BAe are seeking 100% launch aid funding of their development costs on the grounds that they have borne, without launch aid, the development costs of all their recent civil programmes.

A320 and V2500

12. The V2500 would provide an attractive power plant for the A320, offering a significant margin of technical superiority over the derivative Franco-US CFM56-4 engine currently proposed



as the launch engine for the A320. The IAE companies are currently studying whether the V2500 could be available by Spring 1988 so that it could be offered as an alternative launch engine to the CFM 56-4 for the A320's projected entry into service date.



ESTI

10 DOWNING STREET

THE PRIME MINISTER

17 January 1984

Dear Herr Strauss.

Thank you for your letter of 26 December. We are considering, as a matter of urgency, British Aerospace's application for launch aid.

I very much hope that the A320 can be a success: I fully appreciate its strategic importance to the future of Airbus Industrie and of European collaboration in aerospace. But the British Government's approach to the project will be rigorously commercial. We need to be satisfied that the A320 can yield a financial return commensurate with the degree of risk involved. We shall be looking carefully at the sharing of this risk between British Aerospace, as a private sector company, and the Government. At a time when the Government are faced with a wide range of competing claims from other sectors for the limited funds available, we must ensure that the best possible value for money is obtained in the use of public funds.

We are of course maintaining close contact with the other Governments involved in Airbus. They are also considering their attitude. I would expect that, when the Airbus Ministers meet in the future, they will be in a position to reach

/substantive

6

substantive decisions on the future of the A320.

Y
Yours sincerely
Raymond Thalbe

Herr Franz Joseph Strauss

Prime Minister

AVIATION BACKBENCH COMMITTEE
TUESDAY 17TH JANUARY 1984

The following will be coming to see
you at 5.30 p.m. tomorrow to discuss
the A320 Airbus:-

John Wilkinson
Cranley Onslow
Kenneth Warren
~~Michael McNair-Wilson~~
Michael Colvin

Michael Alison

16.1.84

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JH 542

PS Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

16 January 1984

John Coles Esq
Private Secretary to
the Prime Minister
10 Downing Street
London SW1

Dear John

Please type letter.

A.S.C. 17/1.

AIRBUS A320

With your letter of 5 January, you enclosed a letter on this subject to the Prime Minister from Herr Franz Josef Strauss. I attach a draft reply.

2 Herr Strauss has written his letter in his capacity as Chairman of the Airbus Industrie Supervisory Board. He is, as he says, reflecting a decision of the Presidents of the Airbus partner companies, taken at their meeting on 9 December, to the effect that he should write to the Heads of Government in all the Airbus countries. His message is that the "industrial" conditions for the launching of the A320 programme have been satisfied - and that all now depends on the willingness of Governments to give the necessary financial assistance.

3 The Prime Minister's reply will not be an inter-Governmental communication. It will effectively be addressed to a senior figure in Airbus - and its terms could possibly be referred to in public by Herr Strauss and others. The terms of the draft reply are thus designed to be consistent with what has already been said in public by Ministers here in the UK. The basic flavour is that we appreciate the "strategic" arguments but that we must satisfy ourselves as to the projects commercial viability.

4 The draft also refers to the next meeting of the Airbus Ministers. This will probably be in February - but we (and the Germans) have told the French that the meeting should not take place until the respective national positions have been clarified. A Ministerial meeting which could not take substantive decisions would be counter-productive at this stage.

5 I am copying this letter and the draft to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

*Yours ever
Steve*

STEPHEN NICKLEN
Private Secretary

JF5317

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Herr Franz Joseph Strauss
Chairman
Airbus Industries Supervisory Board
Prinzregentenstrasse 7
8000 MUNICH 22

AIRBUS A320

Thank you for your letter of 26 December. We are considering, as a matter of urgency, British Aerospace's application for launch aid.

I very much hope that the A320 can be a success: I fully appreciate its strategic importance to the future of Airbus Industrie and of European collaboration in aerospace. But the British Government's approach to the project will be rigorously commercial. We need to be satisfied that the A320 can yield a financial return commensurate with the degree of risk involved. We shall be looking carefully at the sharing of this risk between British Aerospace, as a private sector company, and the Government. At a time when the Government are faced with a wide range of competing claims from other sectors for the limited fund^s available, ~~it we~~ ^{must} ~~is incumbent upon us to~~ ensure that the best possible value for money is obtained in the use of public funds.

We are of course maintaining close contact with the other Governments involved in Airbus. They are also considering

attitude.

their ~~respective positions at this time.~~ I would expect that, when the Airbus Ministers meet in the future, they will be in a position to reach substantive decisions on the future of the A320.

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10 DOWNING STREET

From the Private Secretary

Prime Minister

The Conservative Aviation Committee are coming to see you for 30 minutes on Tuesday, 17 January. Mr Lamont will also attend. He will arrive 5 minutes early to give you a quick briefing, though the attached papers are pretty comprehensive.

If anything new emerges from the meeting of MISC 25 (officials) on Monday, I will let you know.

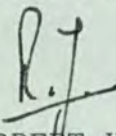
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13/1

PRIME MINISTERAVIATION COMMITTEE OF CONSERVATIVE MPs

On January 17th, the Aviation Committee will press you for launch aid for the Airbus A320 and the Rolls Royce V2500 collaborative engine. (The Chairman, John Wilkinson, wrote in this vein to the FT on Tuesday last, and his letter is copied below.) The day before your meeting, MISC 25, the officials' group on the aerospace industry, will be taking DTI papers on both projects. A recommendation to E(A) or E(NI) from MISC 25 should be ready in late January or early February.

On present evidence, there are good grounds for caution in the face of the Aviation Committee's enthusiasm, so on the 17th we suggest you remain a tinge sympathetic, but cautious and not yet ready to make any commitment.

Briefs are attached on A320 and V2500.


ROBERT YOUNG
13 January 1984

Government launch aid for the A320 Airbus

From Mr J. Wilkinson, MP

Sir, — May I add my voice to appeals that have already been made by such authoritative bodies as the Society of British Aerospace Companies and the Air League to the Government to provide launch aid recoverable on sales for the A320 Airbus project?

Traffic figures now indicate clearly that the recession in civil air transport is ending and there is little doubt that airlines will be seeking to replace ageing, noisy, narrow-body airliners such as the BAC 111, Boeing 727 and 737, DC9 and Trident with new equipment that is not only more fuel-efficient but also meets the noise regulations that will be widely prevalent in the latter part of this decade. The market for new airliners in this category is well over 3,000 aircraft by the year 2000.

Increasingly airlines will substitute an entirely new airliner, rather than a derivative

of an existing type to meet their requirements in the 150-seater category, and will demand an aeroplane with optimal passenger appeal, good operating economics and the most up-to-date engineering technology.

At present there is only one potential such aircraft — the Airbus Industrie A320 which has already been ordered from the drawing board by four airlines, including British Caledonian. When the original A300 was launched it had no prior orders. Today Airbus Industrie is the sole effective competitor to Boeing and no less than 350 A300s and A310s have been ordered. Furthermore, British Aerospace has built the wings of those existing Airbus with out a penny of British Government launch aid.

If the British Government is to have an industrial strategy which looks to the future and builds upon success rather than merely subsidising loss-making nationalised industries, it must

support launch aid for the A320. To fail to do so would cause grave complications for British Aerospace's position on the Airbus consortium and there is every likelihood that Airbus Industrie would find another manufacturer to build the wings of the A320.

If the Government wants to promote the interests of hard-pressed Rolls-Royce, one of the best ways would be to guarantee with launching aid British participation in the A320 Airbus. The futures of British large civil airliner manufacture and of Rolls-Royce are inter-related. The A320 is the most probable candidate for the new Rolls-Royce V2500 five-nation consortium engine, and so powered could meet British Airways' requirements very nicely. John Wilkinson.

(Chairman, Conservative Aviation Committee.)
House of Commons, SW1.

AIRBUS A320 150-SEAT AIRCRAFT

1. British Aerospace are seeking 100% launch aid, equivalent to £461 million at outturn prices, for the wings for A320.

Their commercial case is poor. The expected real rate of return, at just over 4%, is below the Treasury norm for a low-risk project; the A320 is very high risk. Particular vulnerabilities are:

- the aircraft selling price, which will be heavily influenced by Boeing: the market might dictate too low a price
- the dollar/pound exchange rate, where anything in excess of \$1.60 between 1988 and 2003 will reduce the rate of return
- and the price of aviation fuel. BAe assume a 50% real rise over 6 years to make it worthwhile for airlines to invest in new technology fuel efficient aircraft.

Technologically, A320 is not a high risk venture, and the price of the plane can be manipulated to yield the forecast 600-700 sales, but it is extremely doubtful whether A320 will make any profit for the Airbus partners.

2. On launch aid, there is no precedent for 100% assistance, and A320 is certainly not the case on which to establish a precedent. The maximum extent of launch aid granted since its inception in 1949 has been 50%, and even then only two out of 40 cases have ever paid back in real terms - the Vickers Viscount airliner and the Rolls Royce Dart engine.

3. As to UK technical skills, designing the A320 wing will be intellectually demanding. But it is unlikely to require more than normal incremental developments in the down-stream disciplines. Although continuing UK experience with carbon fibre materials will be useful, there is no widespread fall-out of technical benefit to other industrial sectors.

4. The net employment effect is difficult to forecast. Within BAe, the A320 programme might, at its 1990/91 peak, absorb 1,000

more employees than are currently engaged on the A300 and A310 programmes. If BAe does not go ahead with A320, and A300/310 runs down as planned, BAe will have to shed 5,500-6,000 employees. The effect on BAe's sub-contractors' employment is as yet unclear. But we can hazard a guess that the final increase is unlikely to exceed 2,000/3,000, while the decrease could be 8,000/9,000. We could well find that, because of timing, decreases start before increases.

5. Lobbying has been intense. Its impact, we suggest, should be taken seriously. BAe have effectively cast HMG as arbiter of the Company's role in A320, and, by extension, of the UK's place in civil aircraft manufacture. Sir Austin Pearce has repeatedly (and misleadingly) avowed that HMG will get its money back "with profit and interest". He has drawn heavily on the public perception that employment in high technology is a virtuous thing. Both BAe and the Conservative MEPs to whom I have spoken have emphasised that A320 gives us the need and opportunity to be seen as good Europeans, with consequential industrial and political benefit. In fact, nobody in public has yet raised a voice against A320. Yet BAe are not prepared to venture a penny of their own shareholders' money. Why not? We did not denationalise BAe in order to carry on picking up the bill for any risky venture they are suspicious of for their own shareholders.

One last qualitative point, not yet raised by the lobbyists, is that £X-million risked on A320 is better than the same number of millions thrown away on British Shipbuilders or British Steel. Some potency in that?

6. At this stage, any conclusion should be tenative. Commercially, the right amount of launch aid - and the place to start negotiating - is zero. DTI should be made to fight for every percentage point, on the grounds that the commercial case is frail and that launch aid should be the minimum needed for presentational purposes. I shall ask MISC 25 to ponder the benefit of allowing BAe to keep the proceeds of a sale of HMG's 23% "surplus" shareholding (it owns 48% as against a commitment to retain 25%). At today's share price, a 23% holding is worth £107 million, equivalent to 23% of launch costs at outturn prices and 31% at 1983 prices.

R.J.

13 January 1984

ROLLS-ROYCE V2500 COLLABORATIVE ENGINE

1. Rolls-Royce are proposing to participate, with Pratt and Whitney and Japanese, German and Italian companies, in a new joint company which will develop, make and market a new 23,000lb thrust engine, aimed principally at the market for 150-seat civil airliners. RR's 30% share of the development cost is £226 million, and they seek launch aid of £113 million (50%).
2. Strategically, collaboration is absolutely right for RR. HMG has been pushing the company this way for years, and they are responding.
3. Commercially, RR's case for HMG's approval of the project is strong, far more so than for A320. The V2500 will enjoy a strong competitive position across a wide front of aircraft - not only A320, but all the competitors to A320, too. It will have only one rival - an ageing GE design, which, even with development, will not be as fuel efficient as V2500. Even on conservative assumptions, the real rate of return on the V2500 project is between 9% and 10%.
4. Technically, V2500 does not take a quantum leap forward, but pushes on with current know how possessed by the partners. Like A320, it is an important intellectual challenge, but the industrial benefit does not spread widely.
5. As to employment, V2500 is expected to absorb about 3000 employees at RR and a slightly greater number at suppliers. But, as other programmes run down and companies seek higher labour productivity, we should not expect much if any nett increase.
6. The DTI paper submitted to MISC 25 is astonishingly lightweight on the legal and management aspects of the joint company. Although the commercial and technical elements of the V2500 case might encourage you to be bullish with the Aviation Committee, caution on the legal front is necessary for now.
7. The amount of launch aid to be offered will have to be determined, not in isolation, but in the light of need as portrayed in the new RR Corporate Plan and as influenced by privatization.

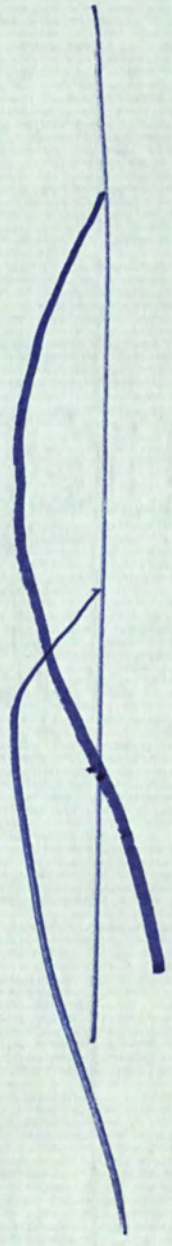
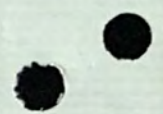
/Sir William Duncan

Sir William Duncan has (rashly) said that RR would go ahead without launch aid. A zero offer is not practical politics, but 50% is an absolute maximum.

8. Tactically, we feel you should insist on treating the A320 and V2500 proposals separately. Approval of the one does not logically require approval of the other. Since they make competing claims on the same finite funds, you may eventually find that launch aid to RR is a useful means of levering down aid to the much more dubious A320 project.

R.J.

12 January 1984





CERY

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DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State for Industry

NORMAN LAMONT MP

Andrew Turnbull Esq
Private Secretary to
the Prime Minister
No. 10 Downing Street
LONDON SW1

13 January 1984

Dear Andrew

PRIME MINISTER'S MEETING WITH THE CONSERVATIVE AVIATION COMMITTEE:
17 JANUARY 1984

As requested in your letter of 11 January to John Alty, I attach briefing on the A320 Airbus and V2500 aeroengine for the Prime Minister's discussion of these projects and the question of Government financial support, with the Conservative Aviation Committee, who can be expected to press very strongly for launch aid to be given for both projects. Briefing on other Rolls Royce issues which may be raised is also attached. As I explained to you earlier, neither Mr Lamont nor the Secretary of State has seen the briefing since they are both abroad. However, I will of course pass on to you on Monday any comments Mr Lamont may have over the weekend.

Appraisal of the launch aid applications from British Aerospace (£439m - outturn prices) and Rolls Royce (£113m - 1983 prices) has now been completed and both cases are to be considered by the Official Group on Aerospace on 16 January 1984. No date has yet been set for consideration by Ministers in, we assume, E(A) but as regards the A320 there are strong industrial and, from the French, political pressures for a decision from HMG by the end of January. Both Parliament and the French have been told that the Government will make its best endeavours to adhere to this timescale. Similar timing pressures apply to the V2500 at industrial level. Background material on the A320 and V2500 provided for the presentations to the Prime Minister by British Aerospace and Rolls Royce on 16 November 1983 remains relevant.

*Yours Sincerely
Stuart Gill*

STUART GILL
Assistant Private Secretary

J14ADI



V2500 AERO-ENGINE PROJECT

Background

1 A five-nation agreement to develop a new jet engine for short/medium haul aircraft in the 110-160 seat range (such as the proposed Airbus A320 or Boeing 737-400) has been signed by Rolls-Royce, Pratt & Whitney (USA), the Japanese Aero Engine Corporation, Motoren und Turbinen Union (West Germany) and Fiat Aviazione (Italy). The agreement will only become effective when it has been approved by the Boards of all companies concerned, and by their respective governments as necessary. The Rolls-Royce Board agreed at its October meeting to the company's participation provided launch aid support was granted by HMG.

2 The agreement provides for equity participation in the joint company and for worksharing as follows:-

	Equity Participation (%)	Workshare (%)
RR	30	30
P&W	30	30
JAEC	19.9	23
MTU	12.1	11
Fiat	8	6

The original proposal envisaged an in-service date of mid-1989, assumed to be on a Boeing aircraft. However, the companies have subsequently stated their intention to try to bring the in-service date forward in order to achieve a launch position on the A320. If such a position were achieved they believe that entry into service could be achieved by the end of 1988, or possibly even earlier.

3 Anti-trust clearance has been given by the US Department of Justice but the 2500 still has a number of hurdles to be cleared before the collaboration can come into effect. It has been made clear to Rolls-Royce that HMG cannot make any commitment to the project until the company's business case (received on 31 August) has been fully assessed. Rolls-Royce applied on 18 October for approval to undertake the project and also for 50% launch aid support under the Civil Aviation Act totalling £113m (at 1983 prices). The application is being assessed against the criteria for launch aid support and in the context of the company's financial needs as indicated by the new Corporate Strategic Plan submitted by the company (see separate brief). DTI analysis, with the aid of MOD, indicates that the project will be able to demonstrate good prospects of commercial viability and that there is a need for launch aid biased towards the early years of the project. A DTI paper recommending approval and aid at the



level requested will be considered by the Official Committee on Aerospace (MISC 25) on Monday 16 January, with a view to Ministerial decisions on the application by the end of January.

4 The Department does not yet have firm information about the state of readiness of the other parties to the project. We understand however that the Board of United Technologies (Pratt & Whitney's parent group) have made a formal commitment to the V2500: there is no indication that the necessary financial support for the other participants will not be forthcoming.

Line to Take

HMG has received a business case from Rolls-Royce for its part in the V2500 engine programme and this is currently being considered. The assessment has to be thorough but HMG hopes to reach a decision fairly shortly.



RTM322 TURBOSHAFT ENGINE

Background

1 The RTM322-01 turboshaft (helicopter) engine is a proposed development by Rolls-Royce in collaboration with Turbomeca (France) and possibly an Italian partner. It is rated at 2100 shaft horse power, and would be suitable for projects such as the EH101 Anglo-Italian helicopter and AST404 (the RAF Puma/Wessex replacement). Rolls-Royce and Turbomeca also see the RTM322-01 as the possible basis for a family of small engines, including a smaller helicopter engine and a turboprop engine. The development of the -01 engine would cost £96m, to be split 50:50 between Rolls-Royce and Turbomeca.

2 Rolls-Royce have withdrawn their request for civil launch aid, but they still require HMG approval to proceed with the project. DTI analysis, with the aid of MOD, indicates that the project is of low technical risk and is commercially viable. The launch cost of the engine is relatively low, and Rolls-Royce can accommodate their share of the cost without serious impact on other programmes. The market for the engine will, however, be strongly influenced by MOD engine decisions on EH101 and AST404, which have yet to be made. Although MOD have as yet no commitment to buy the engine, they have a strong interest in it and are keen to see the development pursued. They are considering whether and how some funding might be provided in advance of a procurement decision. It is intended to bring forward the project for decision within the context of the Rolls-Royce Corporate Strategic Plan 1983-1992.

Line to Take (if raised)

HMG are currently considering an application from Rolls-Royce for approval to launch the RTM322; the company is no longer seeking civil launch aid for the project but is seeking some MOD funding. We hope to be able to announce a decision shortly.



ROLLS-ROYCE CORPORATE STRATEGIC PLAN 1983-1992

Background

1 The Corporate Strategic Plan was submitted by Rolls-Royce on 16 December 1983. Its principal objective is a return to profitability at the earliest date and continuing and increasing profitability thereafter with a view to privatisation during the present Parliament. It contains a Base Plan and two alternative scenarios, one more optimistic, and one more pessimistic which assumes continued recession in the aviation business. All three scenarios envisage improved financial results in the short term by lowering the pay bill, improving manufacturing efficiency, lowering financial expenses, tighter control of R&D and increased sales of civil engines. The Base Plan foresees profitability being reached in 1986 and increasing substantially to 1989.

2 The Plan is now being studied by DTI, who will in due course be making recommendations to Ministers on its acceptability. This must await the completion of the full appraisal of the Plan and of the addendum on proposed collaboration with General Electric (see separate Brief).

3 It is the stated policy of the Government that Rolls-Royce should be returned to the private sector during the course of the present Parliament. Ministers have, however, recognised publicly that "potential investors will require evidence that the company can achieve and maintain a record of profitable trading and the Government's first priority is therefore to encourage the company's efforts to return to profitability". (Mr John Butcher, Hansard 30 June 1983).

Line to Take

1 Commitment to privatisation - It is HMG's intention to see Rolls-Royce returned to the private sector during the course of the present Parliament but we recognise that potential investors will require evidence that the company can achieve and maintain a record of profitable trading, and the Government's first priority is therefore to encourage the company's efforts to return to profitability.

2 (If raised) Corporate Plan - HMG have recently received the Corporate Strategic Plan from Rolls-Royce. It is at present being studied with a view to establishing its acceptability in the light of the Government's objectives for the company.



PROPOSED COLLABORATION WITH GENERAL ELECTRIC
(Not for disclosure)

The Prime Minister may wish to be aware that DTI have very recently received from Rolls-Royce an addendum to the Corporate Plan (promised in the original submission) on a proposed collaboration with General Electric (GE) of the USA. Rolls-Royce have reached an agreement in principle with GE, subject to ratification by the Boards of both companies and by HMG, by which Rolls will take a growing share (15% rising to 25% by 1988) in GE's CF6-80C large aero-engine (56,000 lb thrust) and GE will take an equivalent growing share in the RB211-535E4 engine (40,000 lb thrust). The big engine market is assessed by Rolls as the largest sector of the future. In their view the proposed collaboration will provide a sound economic and technical basis for continuing in the high thrust civil aero-engine business, where the RB211-524 is likely to come under increasing pressure from new engines such as the CF6-80 and the Pratt & Whitney 4000. The proposal implies a decision by Rolls-Royce not to proceed with a new high-thrust engine of its own such as the RB211-600 once mooted. It also contains a statement of intent for any new engines in the medium to high thrust range to be developed jointly on an equal basis by Rolls and GE. The proposed collaboration will need to be assessed within the context of the Corporate Plan. Rolls-Royce regard the proposal as a matter of the greatest commercial confidentiality and have asked that no reference to this matter should be made publicly until the agreement has been ratified.



10 DOWNING STREET

From the Private Secretary

11 January 1984

The Prime Minister is meeting the Conservative Aviation Committee on Tuesday 17 January at 1730 at No.10. The discussion will be principally on launching aid for the A320 Airbus but it may also extend to the V2500 engine. The Prime Minister would be grateful if Mr. Lamont could attend this meeting.

BF
Could you let me have a brief on the issues and the line the Prime Minister should take. I would be very grateful if this could reach me by close of play on Friday. We may also need to be in touch on Monday evening to consider whether a further report is needed on the outcome of the MISC 25 meeting.

I am copying this for information to Callum McCarthy.

Andrew Turnbull

John Alty, Esq.,
Department of Trade and Industry.

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10 DOWNING STREET

From the Private Secretary

5 January, 1984

European Airbus

I enclose a copy of a letter, together with a translation, which the Prime Minister has received from Herr Franz Josef Strauss following a meeting of the Presidents of the Airbus Partner Companies.

I should be grateful if you could let me have a draft reply for the Prime Minister's signature.

BT |

I am copying this letter and enclosure to Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

M. C. McCarthy, Esq.,
Department of Trade and Industry



10 DOWNING STREET

THE PRIME MINISTER

28 December 1983

CK to note
re DSS
CSTI.
Alan H. Owen.

Thank you for your letter of 12 December about the British Aerospace case for launch aid for the Airbus A320 programme.

The Government fully recognise the implications of the A320 project for British Aerospace's future in civil aircraft manufacture. Sir Austin Pearce expresses confidence that the project will be a commercial success but acknowledges that there are risks and that there will be intense competition from Boeing. Launch aid would involve very substantial public expenditure: in outturn prices, the British Aerospace share of the A320 development cost is some £440 million. At a time when the Government are faced with a wide range of competing claims from other sectors for the limited funds available, it is incumbent upon us to ensure that the best possible value for money is obtained in the use of public funds.

It is therefore essential for the Government to be satisfied, before committing financial support to the A320, that the project has sound prospects of commercial viability and deserves priority over other calls for Government aid. We must consider very carefully the extent to which it would be

/ appropriate
RC

appropriate for the Government to contribute to the funding and the basis on which the risks might be shared equitably with British Aerospace.

Evaluation of the A320 launch aid application is proceeding as a matter of urgency and the Government hope to reach a decision early in the New Year.

Yours sincerely

Raymond Daker

The Rt. Hon. Dr. David Owen, M.P.

Translation
attached at back



Der Bayerische Ministerpräsident
Vorsitzender des Aufsichtsrates
der Airbus Industrie

8000 München 22 26. DEZ. 1983
Prinzregentenstraße 7
Tel. (089) 2 16 50 · FS 05-23 809

2611

Sehr verehrte Frau Premierminister!

Die Präsidenten der in dem europäischen Konsortium Airbus Industrie zusammengeschlossenen Luftfahrtfirmen haben sich am 9.12.1983 getroffen und mich gebeten, Ihnen die aktuelle Situation darzustellen.

Die zivile europäische Luftfahrtindustrie steht gegenwärtig vor einer für ihre weitere Zukunft äußerst wichtigen Entscheidung.

Das Airbus-Programm hat auf der Grundlage der partnerschaftlichen Zusammenarbeit zwischen den europäischen Luftfahrtgesellschaften innerhalb des Konsortiums Airbus Industrie und dank der Unterstützung der Regierungen der Partnerländer bis zum heutigen Tage einen wirklichen Erfolg auf dem Weltmarkt erringen können.

Ihrer Exzellenz
Frau Margret Thatcher, MP
Premierminister des
Vereinigten Königreiches von
Großbritannien und Nordirland

./.

L o n d o n

Gleichzeitig hat die weltweite Wirtschaftskrise zwei der größeren amerikanischen Zivilflugzeug-Hersteller (Lockheed und Douglas) gezwungen, ihre Tätigkeiten auf diesem Wirtschaftssektor aufzugeben bzw. erheblich zu reduzieren.

Die Erfahrungen aus den letzten Jahren sowie die Schwierigkeit für die europäischen Produkte, sich dauerhaft gegenüber den amerikanischen zu behaupten - insbesondere, was die Triebwerke betrifft - machen es erforderlich, daß auch die europäische zivile Luftfahrtindustrie sich beim Zellenbau auf eine europäische Politik abstützt.

In diesem größeren Zusammenhang ist die Entscheidung der Airbus-Präsidenten über die Fortführung des Programms Airbus A 320 zu sehen.

Die Präsidenten der Airbus-Partnerfirmen und ich sind der Auffassung, daß dieses Programm in sich selbst als wirtschaftlich anzusehen ist.

Wenn es nicht endgültig gestartet wird, ergeben sich tatsächlich folgende Risiken:

- Die Stagnation der Verkäufe von bereits existierenden Airbus-Modellen wird anhalten, da die Luftfahrtgesellschaften ihr Vertrauen in den langfristigen Bestand der Airbus Industrie verlieren werden;

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- das in die Airbus Programme investierte Kapital geht verloren;
- die Partnergesellschaften müßten lange und kostenintensive industrielle Umstrukturierungen vornehmen zum Nachteil ihrer Effizienz auf anderen Gebieten;
- schließlich wird sich ein de facto-Monopol der Firma Boeing ergeben, worunter nicht nur die europäischen Luftfahrtgesellschaften zu leiden hätten, sondern die gesamte europäische Position auf vielen Gebieten gegenüber den Vereinigten Staaten von Amerika betroffen würde.

Nach sorgfältiger Abwägung von Analysen und Standpunkten sind die Präsidenten der Airbus-Partnerfirmen davon überzeugt, daß die Startentscheidung für das Programm Airbus A 320 so schnell wie möglich, d.h. innerhalb der nächsten Wochen, getroffen werden muß. Weitere Verzögerungen können dazu führen, daß die bereits vorhandenen sowie die kurz vor ihrem Abschluß stehenden Verträge mit Erstkunden verlorengehen und daß andere potentielle Kunden dazu gebracht werden, Flugzeuge aus der gegenwärtigen Produktpalette der Airbus-Wettbewerber zu kaufen.

Die Airbus-Partnergesellschaften sind der Auffassung, daß die für einen Programmstart notwendigen industriellen

und kommerziellen Voraussetzungen vorliegen. Klar ist jedoch, daß eine Startentscheidung nur mit der Unterstützung der Regierungen getroffen werden kann. Tatsächlich kann keine der am Projekt beteiligten Gesellschaften heute allein die mit der Entwicklung der A 320 verbundenen finanziellen Risiken tragen.

Die Präsidenten der Airbus-Partnerfirmen und ich haben es daher für geboten erachtet, Ihnen diesen Brief zu schreiben, nicht so sehr mit dem Zweck, neue Beurteilungskriterien mitzuteilen, sondern um noch einmal die besondere Bedeutung hervorzuheben, die wir dieser Angelegenheit beimessen und um zu zeigen, daß dies die einhellige Auffassung aller Beteiligten ist.

Mit freundlichen Grüßen

Jhr

F. J. Rumpf

Translation

The Presidents of the aircraft manufactureres cooperating in the European Airbus programme have met on the 9th of December 1983 and asked me to give you some explanations on the actual situation of the Airbus programmes.

The European civil aircraft industry is facing a decision of utmost importance for its future.

Thanks to European industrial cooperation in the frame of Airbus Industrie, and to the support of governments, the Airbus products were able to achieve, up to now, a real success on the world market. In the same time, the economic crisis has forced two of the major US civil aircraft manufacturers (Lockheed and Douglas) to give up or reduce considerably their actitivities in that field. The experience of the past years and the difficulty to maintain a successful position for European production on American aircraft have also demonstrated that the European civil aeronautical industry must rely on a European policy for airframes.

Such is the context in which Airbus 320 launching decision must be taken.

The Presidents of the Airbus Partner Companies and I regard it as an economic programme in itself.

A failure to launch it would result in major risks for our companies

- persistency of the stagnation of sales of Airbus existing products, due to the airlines' loss of confidence in Airbus Industrie long term future,
- loss of the capital invested in the Airbus programmes,
- necessity for the partner companies to undertake long and costly industrial redeployments to the detriment of their efficiency in other fields,

- situation of de facto-monopoly left to Boeing with subsequent probable prejudice not only for European airlines but also for the whole European position towards the USA in many fields.

After confrontation of the analyses and opinions, the Presidents of the Airbus Partner Companies and I are convinced that the decision to launch the A 320 must be taken most rapidly, that is in the next few weeks. Further delays might make us lose the launching airlines which are already committed or reaching commitment and lead other potential customers to purchasing aircraft from our competitors' current range of products.

The Partner Companies believe that the necessary industrial and commercial conditions to launch the programme are fulfilled. It is clear, however, that the launching decisions can only be made with the support of the governments. None of our companies can indeed take alone the financial risks associated with the development of the programme.

The Presidents of the Airbus Partner Companies and I felt therefore it was our duty to write you the present letter, not so much with the purpose of bringing new elements of judgement, but in order to insist on the exceptional importance we give to this matter, and to convey our convergent views of the subject.

Regards,

/s/ Franz Josef Strauß



JF5 180

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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23 December 1983

The Rt Hon Alfred Morris MP
House of Commons
LONDON
SW1A 0AA

DMJ
29/12

DMJ.

I have been asked to reply to your letter of 7 December to the Prime Minister in which you asked for comments on the letter you had received from Sir Austin Pearce arguing the British Aerospace case for launch aid for the Airbus A320 programme.

The Government fully recognises the implications of the A320 project for British Aerospace's future in civil aircraft manufacture. Sir Austin expresses confidence that the project will be a commercial success but acknowledges that there are risks and that there will be intense competition from Boeing. Launch aid could involve very substantial public expenditure: in out-turn prices, the British Aerospace share of the A320 development cost is some £440m. At a time when we are faced with a wide range of competing claims from other sectors for the limited funds available, the Government believe that the need to obtain value for money is of paramount importance.

It is therefore essential for the Government to be satisfied, before committing financial support to the A320, that the project has sound prospects of commercial viability. We must consider very carefully the extent to which it would be appropriate for the Government to contribute to the funding and the basis on which the risks might be shared equitably with British Aerospace.

Evaluation of the A320 launch aid application is proceeding as a matter of urgency and the Government hope to reach a decision early in the New Year.

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29 DEC 1983



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22 December 1983

Timothy Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

for PM's sig por.
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23/12

Dear Tim

... I attach a draft reply for the Prime Minister to send to the Rt Hon Dr David Owen MP in response to his letter about launch aid for the A320 Airbus.

2 Dr Owen's letter has been prompted by a letter from Sir Austin Pearce, Chairman of British Aerospace, arguing the BAe case for A320 launch aid and widely circulated to MPs interested in aerospace matters. Sir Austin sent out these letters following some adverse press comment on the A320 launch aid request after the BAe/RR presentation to the Prime Minister. Several letters in similar vein to Dr Owen's have been received from MPs by Ministers here.

Yours ever
Steve

STEPHEN NICKLEN
Private Secretary

DRAFT REPLY TO THE RT HON DR DAVID OWEN MP

Thank you for your letter of 12 December about the British Aerospace case for launch aid for the Airbus A320 programme.

The Government fully recognise the implications of the A320 project for British Aerospace's future in civil aircraft manufacture. Sir Austin ^{Pearce} expresses confidence that the project will be a commercial success but acknowledges that there are risks and that there will be intense competition from Boeing. Launch aid would involve very substantial public expenditure: in outturn prices, the British Aerospace share of the A320 development cost is some £440m. At a time when the Government are faced with a wide range of competing claims from other sectors for the limited funds available, it is incumbent upon us to ensure that the best possible value for money is obtained in the use of public funds.

It is therefore essential for the Government to be satisfied, before committing financial support to the A320, that the project has sound prospects of commercial viability. *and deserves priority over other calls for Government aid.* We must consider very carefully the extent to which it would be appropriate for the Government to contribute to the funding and the basis on which the risks might be shared equitably with British Aerospace.

Evaluation of the A320 launch aid application is proceeding as a matter of urgency and the Government hope to reach a decision early in the New Year.

Orders of the Day

CONSOLIDATED FUND BILL

Order for Second Reading read.

Question, That the Bill be now read a Second time, put forthwith pursuant to Standing Order No. 113 (Consolidated Fund Bills), and agreed to.

Bill accordingly read a Second time.

Question, That the Bill be now read the Third time, put and agreed to.

Bill accordingly read the Third time, and passed.

Airbus A320

Motion made, and Question proposed, That this House do now adjourn.—[Mr. Goodlad.]

7.15 pm

Mr. Rob Hayward (Kingswood): I welcome the opportunity of raising the subject of the A320 and launch aid that might be given for it. This matter was discussed as recently as 2 December. Today I shall raise one or two of the issues that were mentioned by the Minister of State in his reply to that debate, and touch on some aspects that have arisen since then. I am conscious that a number of other hon. Members wish to speak in the debate, so I shall not take longer than I need, in order that they may have an opportunity to do so.

When I was preparing my speech, I was tempted merely to comment—Yugoslavia—and then sit down. We heard today the Yugoslavian state airline is to order five A320s and that it has options on a further three A320s. That confirms the British Caledonian decision of month ago that the A320 is a good aircraft, by any measure. We are no longer talking about an air frame that is to be sold purely to airlines that have a vested national interest. British Caledonian is a highly regarded independent airline, and the Yugoslavian airline cannot be said to have any direct interest in the A320. Before I say why launch aid should be granted to Airbus Industrie—British Aerospace, I shall comment on Airbus Industrie in the light of what my hon. Friend the Minister of State said on 2 December.

My hon. Friend raised three matters which, in my opinion, are worth considering. First, he mentioned the productivity of Airbus Industrie, compared with that of American manufacturers. There appears to be a poor comparison between the two. British Aerospace and the other parts of the Airbus Industrie have however made efforts during the past few years to improve their productivity. If the A320 is granted launch aid, the improvements that British Aerospace has made will, I believe, be continued, and the comparison between the American and European manufacturers will continue to improve. However, in view of the differences in labour legislation we must remember that the same productivity can never be achieved by western Europe as can be achieved in the United States.

My hon. Friend the Minister mentioned the management structure. There is room for greater emphasis, in particular, on the non-French management in the Airbus Industrie consortium. Of course, Britain entered the consortium at a late stage, and if the Government sees fit to grant launch aid, I hope that there will be an improvement in British representation at the

senior échelons of Airbus Industrie management. I say, "British", but I realise that other nations may have an interest in a change in the management structure also.

My hon. Friend also mentioned subcontractors. It is important that Airbus Industrie considers not only the major contracts but the subcontracts. About 35,000 people in the United Kingdom are employed in companies with an interest in the avionics of civil aircraft. They should not be forgotten. It is important that the senior management in Airbus Industrie considers that if the Government see fit to grant launch aid.

The Government should be able to grant launch aid not only because of the arguments that were advanced on 2 December, but for a number of other reasons. We are discussing a non-party issue. About 190 signatures from hon. Members of all parties have been put to an early-day motion. The subject interests hon. Members of all parties and I shall welcome contributions to the debate from both sides of the House.

Long-term viability was a theme which interested my hon. Friend the Minister on 2 December. He was not interested purely in the question of whether the airframes could be sold, but in whether a financial return could be made. The Minister referred to the Viscount as the only plane that had been able to repay the grant aid given by the Government of the day. Today's circumstances are different from those which have applied in western Europe since the war.

Today more launch or pre-launch orders have been achieved for the A320 than for any other airframe by any manufacturer in western Europe since the war. Its marketability and saleability to any part of the world cannot be in question. If the Government give the go-ahead the 88 firm orders and options that Airbus Industrie already has will be built on substantially. We are not talking about new aircraft but replacements for old and aging aircraft. We are not trying to carve a new niche in the market.

We must consider what some of the authoritative bodies in the aircraft industry suggest are the potential markets for a 150-seat aircraft. Depending on whether one considers Boeing, Rolls-Royce, Merrill Lynch or any other authoritative consideration relating to 1997, 1998, 2002 or 2003, the general estimate is that 3,000 airframes are involved over the next 20 years. That is the average figure. Some of the estimates are above 4,000. The lowest for the next 15 years is 2,500. If Airbus had even a 30 per cent. share of that market it would involve over 700 airframes. At well under that figure the launch aid can be repaid. We are talking not of a grant that will not be repaid, but of a loan which if 700 airframe orders are achieved will be more than repaid.

A major argument against granting launch aid is that three major manufacturers are in the market and that one or two of them will inevitably make a loss, not merely in relation to airframes but to aero engines. There are only two major contenders in airframes—Boeing and Airbus Industrie. McDonnell Douglas has said that it is on the verge of withdrawing. It would be a bad day for European airlines, and airlines worldwide, if there were a monopoly supplier of this or any other airframe.

It is important that the launch aid be granted because the A320 will be built with or without British participation. If we do not participate job prospects will be transferred to other countries in western Europe, and possibly to Canada. The French have already decided to

go ahead. We know from orders by British Caledonian and the Yugoslav airline that the aircraft is viable. Other countries will snap up rapidly our opportunity to create jobs. The number of hon. Members here tonight and the different parts of Britain that they represent shows how many places will be affected by the decision. At a reasonable estimate at least 10,000 jobs are at stake.

If grant aid is not given immediately, between 350 and 500 jobs in the design team will be at risk. Jobs are associated not only with the wings and their moving parts, but with other aspects of British Aerospace and work outside that organisation.

Launch aid must be granted urgently. We cannot go on and on considering. As those involved in airframe manufacture know, we are already on a course of rising expenditure in terms of British Aerospace. My hon. Friend the Member for Cannock and Burntwood (Mr. Howarth) will discuss the details later. The curve rises with each month.

In some ways we are already late into the market. Some say that decisions should have been taken by Airbus Industrie and the Government many months ago so that the launch could have taken place several months earlier. We are now committed to a 1988 launch, which some say is too late.

If the Government defer a decision beyond early in the New Year we shall endanger the whole project for the British. We could not blame the French, the Germans and other members of the consortium if they said, "I am sorry. We have waited too long."

On 2 December the Minister said that he hoped "we shall be in a position to reach a decision early in the new year."—[Official Report, 2 December; Vol. 49, c. 117.] That must be before the end of January or we can guarantee that 10,000 jobs in the U.K. will be job opportunities in other parts of Europe. We shall guarantee that British Aerospace loses its place in the Airbus Industrie consortium and we shall destroy the long-term future of civil airframe manufacturers in Britain. I appeal to the Government to take a decision; to take a favourable decision on launch aid for the A320 early in the new year—That is January.

7.28 pm

Mr. Lewis Carter-Jones (Eccles): I congratulate the hon. Member for Kingswood (Mr. Hayward) on presenting an excellent case for the A320 airbus. I wish to indulge in a little nostalgia and sentimentality. The wing section for the Mosquito in which I flew in wartime was built at Broughton in north Wales and its Merlin engine was built by Rolls-Royce. Despite that, I believe that nostalgia and sentimentality never buttered any parsnips. What we need is launch aid to get the aircraft off the deck.

A greater sense of urgency has been apparent recently. I regret that our co-operation with Airbus Industrie has not been as good as it should be. We thought that the RB211 and Tristar would remain for ever and a day. Tristar has gone, manufacture has ceased and Lockheed is out of the civil aviation industry. McDonnell Douglas flashed through the sky with the DC10 and it, too, has now vanished from sight. We are left with Boeing or British Aerospace. The one aircraft that we need for the future is the A320.

The hon. Member for Kingswood was absolutely right—the death knell of the British aviation industry on the construction and power plant side will be sounded unless

launch aid is given. The A320 will get off the deck without our support and without our action, but no British civil aviation industry will be left. That is the reality of the position. If our product was inferior I should not mind too much, but we have a superior product. The high technology wing is welcomed by Airbus Industrie. It wants us as a partner, it needs us as a partner, but it can go alone. The hon. Member for Kingswood was right—time is running out, and running out very fast indeed.

What is intriguing is that the Secretary of State, British Aerospace and Rolls-Royce are coming closer together than I have ever known during my time in the House. There is a great sense of urgency and a tremendous willingness to co-operate. I believe that we should have a larger share of the high technology wing section. A great deal more should come to us. We deserve a great deal more, but we will deserve and get a great deal more only by our own efforts. No one will do it for us. If in fact we go ahead on the airframe side, we must make sure that there is compatibility between the airframe and the engine, and the pylons must be designed to take the Rolls-Royce V2500. That is essential.

I return to my little trip of nostalgia and sentiment down memory lane. In my days as a navigator on night fighters I used some of the most advanced radar equipment then available in the world—the mark 10A1-air interceptor. There is nothing wrong with avionics that we produce today in this country. That must be another condition. An aircraft today can be divided into three component parts: the engine—that is the power plant—the airframe and the avionics. We want a cut of every one of those component parts. The Minister must make sure that this area of technology, in which we can hold our own with anyone, is not allowed to go down the drain.

The A320 must get airborne with the maximum amount of British component parts. We are as one in the House tonight. I endorse what was said by the hon. Member for Kingswood—we want action, we want it quickly and we want to make sure that the full weight of the Minister is put behind ensuring that we get the A320 with a substantial amount of British components.

7.33 pm

Mr. John Wilkinson (Ruislip-Northwood): I congratulate my hon. Friend the Member for Kingswood (Mr. Hayward) on introducing the debate this evening. He has taken a consistent interest in the aerospace industry and we are grateful to him. We appreciate also the contribution of the hon. Member for Eccles (Mr. Carter-Jones), who spoke from a wealth of experience. His contribution, I am sure, has been noted by the Minister.

We are coming to a crossroads in British civil aviation. We cannot delude ourselves about that. If we wish as a country to continue to participate in the manufacture of large civil jet airliners, Her Majesty's Government must provide launch aid for the A320. There can be no delusions about it.

The hon. Member for Eccles was perhaps exaggerating a little when he said that it would mark the demise of the British civil aircraft industry if Her Majesty's Government did not provide launch aid. I understand the spirit behind his remarks but I think that what he said was perhaps implicitly to decry to some extent the importance of such products as the BAe 146, the HS125-800 and the Jetstream 31, which are all making good progress at present.

Mr. Carter-Jones: I am guilty of exaggeration only in the sense that I was talking about large civil aircraft.

Mr. Wilkinson: I am most grateful to the hon. Gentleman. The hyperbole in which he indulges is part of his charm and effectiveness. In matters of this type one must put things over a little strongly at times if one is to be fully understood. I will not shirk on that tonight because, as I said, if we wish to remain in the large civil airliner business, Her Majesty's Government must come up with the launch aid.

It is a decision of major strategic importance for this country. I cannot see an industrial decision of comparable magnitude in the foreseeable future. It would in a way be flying in the face of the great progress that we have already made as a partner in the Airbus project if we did not support the A320. Indeed, I wonder what our position would be on the Airbus consortium if Her Majesty's Government were not to support with launch aid on the A320 British Aerospace's participation in the project. It would be highly embarrassing because, as hon. Members on both sides of the House have said, the commercial prospects for the airliner are so good that we can be certain that another manufacturer would be found to build the wings and to take up the portion that we all hope would be the role of British Aerospace.

We should also remember—particularly those hon. Members with a Treasury background or Treasury interest—that British Aerospace's participation to date in the A300 has been with Government launch aid, that 350 Airbuses have been ordered and that 70 per cent. of the existing Airbus orders have been for export. The 767, which is the nearest Boeing equivalent to the B2-B4 Airbus, has 175 orders of which only 25 are for export. While the Americans have the advantage of a large home market, nevertheless, the European Airbus has shown itself to be appreciated worldwide by airlines, by the operators and by the travelling public. It is noteworthy that to date 46 airlines worldwide have chosen the Airbus. That is an important fact and a strong base on which to build.

When we are considering the future of the British airframe industry we should not ignore the strategic importance also of, and correlation with, our power plant industry—our aero engine industry. They go hand in glove. The hon. Member for Eccles referred to the Lockheed 1011. That surely is an example of the great risk we would be undertaking if we were simply to provide launch aid for the IAE2500, the five nation consortium engine in which Rolls-Royce is participating, in the hope of hanging it on an American airframe. That was the great hope for the RB211, but Lockheed went out of the large civil airliner business and now it is much more difficult to find an airframe on which to hang the big RB211. Only the 747 in fact. The RB211 derivative—the 535—we can hang on the 757, but the original big 211s were designed for the 1011, and therefore in the engine sphere we should be extremely vulnerable were we not to support the European airframe industry.

Experience with the Airbus tells us how unwise it would be for the United Kingdom not to get its Rolls-Royce power plant certificated for the A320. Rolls-Royce must now bitterly regret the fact that it never got the RB211 certificated for the B2-B4, and A310 Airbus. I am sure that the company feels today that it should never make the same mistake again. Equally, I hope that Her

Majesty's Government will not again make the strategic mistake that they made with the 1011 in relation to our airframe and aero engine industry.

I appreciate that large sums of money are involved, but it is not all money up front. There is a certain amount up front but, as with all launch aid, it will be supplied over a period of time. For the A320, British Aerospace is looking for £437 million from 1983 to 1991, and the peak of expenditure will come in the financial year 1986-1987 at about £95 million. Thus, Her Majesty's Treasury should not become too apprehensive about the short-term consequences. It should, however, be worried about the long-term consequences for a major critical strategic industry if we were not participating.

Hon. Members have referred to the increasing dominance of Boeing in the market. Do we in Europe really want to be almost wholly dependent on Boeing for the supply of large airliners? To put it crudely, one must sell a lot of suit lengths and bottles of whisky to pay for the import of high technology, and particularly high value items such as civil airliners. I am sure that the Minister, who takes a particular interest in high technology, will be aware of that argument.

Market analysts in the member companies of which there are four—we are talking of Messerschmitt, (Deutsche Airbus), Aerospatiale, Casa and British Aerospace—have carefully done their calculations; they will not stake the future of their companies on what they believe to have been an ill-thought out and ill-judged venture. Indeed, unless Airbus Industrie has a family of aeroplanes to offer, it can be no true competitor to Boeing, for we know what the situation is in the market place. The Boeing company says to an airline, "We see that you have a requirement for some Jumbo jets. We see that you also have a requirement for a number of single aisle twinjets. We can do a nice package deal for you." Because the profit margin on the Jumbo is so huge—and it has a monopoly—the company can sell the single aisle twinjets, the 737s, at a knock-down price. Unless Airbus Industrie can offer a family of aeroplanes, it will never be able effectively to compete.

The clearest niche in the market at present is in the 150-seat category. Of the single aisle twinjets that were built, about 3,500 are still in existence—the 1-11s, Caravelles, F28s, DC9, Tridents 737s—and all must be replaced, and that is without making allowance for increased growth in air traffic—which is happening now—and without making allowance for the extra passenger appeal of an ultra fuel-efficient, quiet, economic aeroplane such as the A320. The niche is there and the airlines admit it. Companies such as Delta are waiting for the right aeroplane, and such airlines are not just waiting for derivatives.

It suits Boeing to keep its 737s churning out—Boeing has just produced its 1000th—in addition to which Boeing has its 737-300 and maybe a 737-400. Once Airbus Industrie comes into the market with a new aeroplane, the A320, which will offer a dramatic quantum jump in performance and economy, Boeing will have to come up with its 7X7, and it is not keen to do that, not only because it is beginning to make money out of the 737, but because the development costs of the 757 and 767 and the need, in addition, to produce yet another aeroplane—the 7X7 or whatever a new 150-seater—will be difficult for the company.

The McDonnell Douglas company has made its decision. It has opted out, to all intents and purposes. It will continue with a derivative aeroplane, the MD80, but is not maintaining its position in the large civil airliner business.

Is this the moment for Her Majesty's Government to opt out? The French and German Governments are not opting out. They have already put £30 million into the project and we can be sure that the commitment of the French Government is complete because they know that if Europe is to mean anything in high technology, it must have a major civil air liner capacity.

My hon. Friend the Member for Kingswood has done an excellent job in raising this matter. We have agreement on the key points, and those agreements Airbus Industrie has already undertaken. They include the provision that 20 per cent. of the work on the new project should be with British Aerospace and that the A320 will be designed from the start to take the Rolls-Royce consortium engine, the IAE 2500. Airbus Industrie has expressed the hope that 20 per cent. of the equipment supplied to the A320 will come from British contractors. I do not think that we can hope for better than that, so let us hope that Her Majesty's Government will not tarry and delay and miss this opportunity.

Mr. Hayward: My hon. Friend referred to 20 per cent. In a parliamentary reply on 2 December, the Minister of State referred to 26 per cent. as the proportion that British Aerospace could reasonably expect.

Mr. Wilkinson: There is no conflict on this. I expressed the hope of the board of Airbus Industrie that it would be that percentage, after all, the company needs a project that will sell in the market place, so it must be at the right price and have the right performance. Accordingly, British equipment suppliers must come up with the goods in terms of price, quality and performance. The board expressed the hope of at least 20 per cent.

The time has come for us to decide to provide launching aid for the A320 and at the same time for the IAE2500 because the two go hand in hand. If the British Government do that, they will be spending money wisely for the future. After all, so much money has gone to so-called lame ducks such as British Leyland, British Steel and British Shipbuilders. Now we have a project that will meet the needs of the market. It has every expectation of making a profit. That is the kind of investment for the future that should be receiving the support of the British Government.

7.50 pm

Mr. Stan Thorne (Preston): I welcome the opportunity to participate in this debate. Not long ago, there was a major lobby here by people engaged in the aerospace industry. It is appropriate for me to declare my interest. I am sponsored by the Technical, Administrative and Supervisory Section of the Amalgamated Union of Engineering Workers, which has the largest membership of any trade union in the aerospace industry. In the course of that lobby, that Union expressed its concern about this matter.

I particularly welcomed the observations of the hon. Member for Ruislip-Northwood (Mr. Wilkinson) about the funding of the A320 project. I recently participated in a meeting with the Secretary of State, and I am aware that

Government Members have also sought a meeting with him. The Secretary of State expressed some concern about the information about funding provided by British Aerospace. Like the hon. Member for Ruislip-Northwood, some Labour Members have also met Sir Austin Pearce and ascertained that a detailed presentation about funding has been submitted to the Secretary of State. As the hon. Gentleman has pointed out, there has been no demand for £400 million to be placed on the table early in 1984. We are talking about a phased programme of funding, and I am indebted to the hon. Gentleman for pointing out what that means.

At the root of the problem is our concern for the future of a major industry in Britain. I was brought up not very far from Trafford park in Manchester. In those days, Britain was called the workshop of the world. In many countries, industries exist today because of the effort made by Britain to create those industries. In recent years, we have seen the erosion of many of our major industries, and that has been most disquieting. Will aerospace be another of those industries?

This debate is primarily about the A320. If I were to refer to the agile combat aircraft or the Rolls-Royce 2500 engine, I might be ruled out of order, but those two projects await an urgent decision by the Government and should be given favourable consideration.

I acknowledge the presence of the hon. Member for South Ribble (Mr. Atkins), who arrived in South Ribble by accident last June. Jobs are the main consideration of the work force in British Aerospace in the Preston area. It has been said that 10,000 jobs may be at stake. Boeing would laugh all the way to several banks in the United States if we allowed this opportunity to develop our own aerospace industry to go by default.

The Secretary of State mentioned at a meeting that he was slightly disturbed about the management of Airbus Industrie in Toulouse. I visited Toulouse with a number of my colleagues and a number of Conservative Members to see what was going on. It may be that we were blind. They say that there are none so blind as those who do not want to see. However, my impression was that it was an active, going concern with a management that would certainly serve us well by promoting the future of the aircraft industry.

I understand that an order for the A320 from Yugoslavia has been announced today. It may be said that an order for eight aircraft is not very important. However, I believe that it may be only the beginning of a flood of orders.

I am aware that other hon. Members wish to participate in the debate, so I shall be brief. There are some crucial questions that the Secretary of State should consider. Reference has been made to the need for investment in a variety of industries. There have been claims and counter-claims for investment. At a recent meeting, the Secretary of State mentioned biotechnology. We understand that there are competing demands for investment. What perturbs me is the fact that the Government are prepared to continue to tolerate an outflow of several thousand million pounds from this country in the form of investment in foreign industry. It is time that the Government made it clear to those who have the capacity to invest in the private sector that they should concentrate more of their resources within the United Kingdom. Conservative Members often talk in tones of pronounced patriotism, but

[Mr. Stan Thorne]

when pounds and pence are involved, patriotism seems to go out of the window. Those with the capacity to invest in British industry should do so.

Before the general election, the Labour party was interested in the planning of investment. We wanted to promote the establishment of an investment bank. Circumstances beyond our control prevented us from developing our plans. I referred earlier to accidents, such as that which took place in South Ribble. An urgent decision is now awaited anxiously by all who have the interests of British Aerospace at heart, including those who work in the industry and those who wish to see it take a proud place in the international airways.

7.57 pm

Mr. Gerald Howarth (Cannock and Burntwood): My constituency will not be immediately affected by any decision taken early next month on this issue. However, I have some prime sites there which I will willingly make available to British Aerospace on favourable terms if it will bring new facilities to the constituency.

The path to No. 11 Downing street is a well trodden one. I trod it myself this evening when I went to collect a free drink, which I fear did not come from the United Kingdom. It is good to take something off the Chancellor, if only a couple of glasses of winter wine.

Supplicants to No. 11 Downing street often go there to seek just one more fix of taxpayers' money to help them go straight again. All too often, the supplicant goes back again to report that the money has been spent and that there is not a great deal to show for it. However, we all agree that the supplicant that we are discussing is very different. This is not some state-owned industry in which public funds have been swallowed by wage increases instead of being invested in new technology. It is a recently liberated and enterprising concern which is in genuine public ownership. In other words, real members of the public own shares in it. It is in the forefront of the new technology. Above all, it is a successful company which last year achieved sales of over £2,000 million, of which 64 per cent.—very nearly two thirds—was attributable to its export performance.

The company's trading profits last year were £112.8 million, of which nearly £8 million went to my right hon. Friend the Chancellor of the Exchequer to pay for a new school, a new hospital or some other worthwhile project. The company sustains 79,000 employees, all of whom reluctantly contribute to my right hon. Friend's hat every spring. British Aerospace plc is a success story.

The House has already debated the A320 once this month. My right hon. Friend the Prime Minister has received a presentation from BAe. The debate is a tribute to my hon. Friend the Member for Kingswood (Mr. Hayward) who is an old sparring partner from Young Conservative days many years ago and who I am delighted to support as we supported each other then. It is also a measure of the importance that many from both sides of the House attach to this issue.

It will be asked in some quarters why a public company cannot raise the £430 million launch aid that is required as British Aerospace's contribution to the Airbus Industrie consortium. If the loan is forthcoming, it will be the first state loan since British Aerospace was nationalised eight years ago.

During that time BAe has financed, entirely from its own resources, the Jetstream 31 which my hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson) mentioned, the advanced turbo-prop aircraft and the HS125 executive jet, as we still know it. My hon. Friend the Member for Welwyn Hatfield (Mr. Murphy) has a particular interest in this matter. British Aerospace has launched the BAe 146 four-engine airliner which recently hit the headlines with the massive and welcome order for 45 aeroplanes from Pacific South West Airlines of the United States of America.

If that were not enough to be financed from the company's resources, in addition it has invested no less than £500 million of its own resources in the existing airbus family—the A300 250-seater and the A310 210-seater. In total that is nearly £1,000 million of privately raised capital for investment. Both sides of the House have been telling British industry that it must invest in the future. British Aerospace has been doing that.

Mr. Michael Marshall (Arundel): My hon. Friend might want to add the share of £50 million going to the Unisat project from British Aerospace-Marconi which is in addition to the sums that he has been listing.

Mr. Howarth: Indeed. I did not intend that my list should be in any way exclusive. My hon. Friend is right. There are many other areas, particularly space, which make a substantial contribution to the company's overseas earnings. It is virtually all overseas earnings. That is a most welcome contribution.

We should look at the history of the matter. This heavy investment follows Government indecision in the late 1960s and early 1970s, and the reluctance of BAC and Hawker Siddeley, the forerunner companies, to invest in advance of Labour's nationalisation proposals. The result has been intensive investment and a catching-up operation which is likely, as my hon. Friend the Member for Ruislip-Northwood said, to peak at the same time as investment in the A320 is required. The company believes that its balance sheet could not take another £430 million in loans, and that it would be wrong to jeopardise the company's financial position by imposing upon it too onerous a debt-servicing burden or by imperilling the present healthy debt to equity ratio.

My right hon. Friend the Prime Minister, in a somewhat celebrated remark, said, that she does not want another Concorde on her hands. I am sure that she did not mean that Concorde was or remains anything other than a brilliant example of British aeronautical engineering. It is the kind of thing that the hon. Member for Eccles (Mr. Carter-Jones) was talking about. However, my right hon. Friend is right to be cautious about spending taxpayers' money. The Government have no money of their own for public expenditure. It is raised from the taxpayer. Concorde was different. It was ahead of its time. It represented a substantial leap in technology. The Americans believed that they were out of the market, and they then sought to kill an aeroplane that did not originate from the United States.

The A320 is a different proposition. First, it is the latest addition to a family. It can draw on its A300 and A310 parentage. It is, as my hon. Friend the Member for Kingswood said, a relatively modern design and will be breaking into new technology. Secondly, the A300 has been a success. It has reached the financial break-even

point some nine years after its first flight. Thirdly, I pay tribute to the 146, but, apart from that aircraft, the A320 is BAE's only major civil aircraft project. It is the product of a proven partnership with the French, German and Spanish industries in which others, as has already been said, will be only too willing to take our place if we wish to duck out. The United Kingdom needs to retain these skills. Their loss would seriously impair our military aircraft construction capability as well as put any future civil aircraft development at risk.

The hon. Member for Eccles had a point when he mentioned avionics. If we have no home-grown civil aircraft market, will foreigners buy our avionics manufacturers to put their avionics on foreign aeroplanes.

Fourthly, in the debate on 2 December, the Minister of State said:

"It is essential, because of the large sums of money being sought, that the Government should be convinced that there are sound prospects of the commercial viability." — [*Official Report*, 2 December 1983; Vol. 49, c. 1175.]

The Minister will know that the A320 goes into production with options or orders for 88 aeroplanes, eight of which were confirmed today, and, it must be remembered, include 10 from Britain's consistently successful flag carrier—British Caledonian—which never forgets that we have a choice and wants an aeroplane to make money.

Fifthly, it would be wrong to leave the market wide open to allow Boeing to become a monopoly supplier, with all that that implies for the customer. If Airbus, British Aerospace and the Government seize the initiative, there is a window of opportunity available to us which will shortly close. Independent assessments have all shown a requirement for between 140 and 240 of these aircraft per year between now and the next century.

This is not the death rattle of an expiring industry but the opportunity to advance an important and successful one. The A300 and the A310 were launched without a penny of Government money. British Aerospace has already put £12 million into the A320. As with the 146, it has backed its judgment with its cash. When we look at the investment of £3 billion in the coal industry since 1979, over £1 billion in British Leyland, British Steel Corporation and the rest, it surely puts the Airbus requirement into perspective.

For those of us who are interested in reducing Government expenditure, it does not come easy to ask for more. British Aerospace should not be penalised for its history, which in part is due to Government indecision and in part to the actions in this place whereby the forerunner companies were threatened with nationalisation.

Mr. Wilkinson: Does my hon. Friend agree that the distinction between this request for launch aid and the subventions enjoyed by British Leyland, British Steel Corporation, British Shipbuilders, and the rest, is that whereas those subventions, to some extent, went into the bottomless pit of their loss-making capacity, the Government will receive a levy on sales and therefore recoup the launch aid?

Mr. Howarth: I am grateful to my hon. Friend. That is absolutely right. It is a loan, not a grant. It is a tribute to BAe that it believes in and is committed to this project, but is not prepared to raise more loan capital because it believes that method to be unsound. Surely it is better that we take a decision based on good information today than that we encourage BAe to accept a financial burden that

it cannot bear and from which we shall have to rescue it three years later when it is up against the wall. We are talking of an individual project, not of bailing out an unsuccessful company. The thrust of my argument is that we are talking about success, not about another lame duck.

There is an overwhelming commercial and political case, as there was with the Viscount, for setting the A320 on the runway with the reluctant assistance of the British taxpayer. This being the season of good will, I hope that Father Christmas will be benevolent to BAe and that BAe will not miss the sleigh. We have a window of opportunity. I hope that the case that we have made will convince the Minister to give a firm date for a decision—a decision which I hope will be favourable.

8.11 pm

Dr. John Marek (Wrexham): This debate is important for civil aviation and for our future as an industrialised nation exporting top quality engineering products. Early-day motion 249 on this subject has attracted 193 signatures. That is more than most motions. In explaining the rationale behind the motion, I have found no hon. Members opposed to it. If hon. Members were not so busy, I am sure that there would soon be more than 325 signatures.

Since my election I have attended no debates until now in which I have agreed with everything said by Conservative Members, and this is not a party political issue. Hon. Members on both sides are urging the Minister to announce launch aid for this project as soon as possible. For the reasons that have been given, I agree that we need this decision before the end of January. If the decision is not favourable, not only would it be a great loss to this country, but we would lose yet another opportunity to contribute to an eventual economic recovery. As a result, there would be an American monopoly—probably only Boeing—in building civil airliners.

There is risk with the A320 venture, as there always is with such undertakings and as there was with Concorde—but there the similarity ends. BAe has made independent assessments of the project's viability. Even on a pessimistic forecast of aircraft sales, there is still great optimism that the project will be a commercial success.

Airbus Industrie has a track record of good sales of the A300 and A310 series. Further orders are coming in and it has work for the next two two and a half years at least. It can claim to have met all the deadlines on time and within the budget.

The A320 is a smaller aircraft—a 150-seater—and there is a market for it to replace aging aircraft such as the 727, 737, DC9 and 111. With the new CFM 56-4 engine, the Opposition believe that the A320 will be a winner. It will satisfy the new noise regulations, and will have lower fuel consumption and lower operating costs. Above all, the engine has proven capabilities. Rolls-Royce also has the opportunity to enter the project, and during the past two or three weeks those of us who have taken an interest in this matter have heard that it is just possible that the new Rolls-Royce engine may be ready in 1988, at the same time as the launch of the A320. My hon. Friend the Member for Eccles (Mr. Carter-Jones) referred to the pylons, but I am sure that that problem can be solved. With good will and, above all, with the Government's support—

Mr. Carter-Jones: I hope that the Minister will insist that there be compatibility for the pylon between existing engine and the proposed V2500.

Mr. Marek: If that is done, Britain can yet again play an important part as a supplier of civil aircraft to the world.

I am not concerned with how the Government find the money for the launch. It may be public or private money, or a mixture of both. However, if the public must bear some risk, I hope that eventually the profits will be returned to the public in the ratio of the risk that they have borne. Above all, I urge the Government not to compartmentalise the matter and to treat it on an economic basis on its own without looking further afield, even though, if they did that, they would find that the project was likely to be a commercial success. The project will have many benefits which may not be used easily quantifiable.

The hon. Member for Ruislip-Northwood (Mr. Wilkinson) mentioned subcontractors, and many other benefits will flow from the project. I urge the Government to provide the necessary launch aid. It does not matter how they do it, as long as they do it, and I hope that they will give their decision by the middle of January at the very latest.

8.16 pm

Mr. Timothy Wood (Stevenage): I join my hon. Friends and Opposition Members in urging the Government to support the A320 project. At this stage in the debate many points have already been made, but I wish to highlight a few of them.

The Government must take a long-term and broad view of their overall approach to high technology projects. It is not good enough for them to consider in an ad hoc way how they will approach a project and to take many months or years in so doing.

Several hon. Members have reminisced, and I shall add to the reminiscences by saying that when I was at university I took a vacation job at Bristol. I looked at one or two aerospace projects and was involved in some critical path figuring. In each of those projects in those days there were hold-ups—waiting for Government decisions on whether the project should go ahead. Sadly, the position has not improved. However, it must improve, because if it does not, old industries will die and we shall be reluctant and afraid to take the initiatives to ensure that new industries flourish. It is crucial that the Government reconsider their approach to such matters.

There is a European dimension in this matter. One reason why I was a firm supporter of joining the EC was that I hoped to see full co-operation in high technology ventures. In Airbus Industrie we have that co-operation, yet we hesitate, hesitate and hesitate again. If we continue to hesitate for much longer, Britain will fail and other countries will take the initiative. We can be confident about much in this venture. The A300 and the A310 are a clear demonstration that those aircraft can be highly competitive in world markets. We may not have achieved the rate of sales that we expected, not because of any failure on the part of those aircraft, but more because of the recession in the aircraft industry as in every other industry.

I believe that particularly with Boeing being the only major competitor likely to be in the field for this type of aircraft, Airbus Industrie is an essential competitor to

Boeing. We must support Airbus Industrie in that venture. British Aerospace has demonstrated its outstanding expertise over the years. It has outstanding experience in the development of air frames in various ways, whether small aircraft or in the contribution to enterprises such as Concorde. However, the contrast with Concorde could not be greater when one considers the financial viability of the overall project. We have in the A320 an established type of aircraft. Many aircraft are coming up for renewal. The A320 can provide what is so necessary in the coming years. It will provide better economy and fuel efficiency. It also produces much less noise, which everyone wants. It will be a popular aircraft. It will be a successful aircraft if only we do not hesitate for too long.

Let us consider the launch aid that has been requested. Some people have suggested that in this case the aircraft manufacturers are saying, "We do not want responsibility for funding this project. We are prepared to do it, but we are not prepared to take the risk." However, British Aerospace is prepared to take the risk, is putting money in and will continue to put money in during the development of the A320 project. If British Aerospace has carried out those analyses, I have sufficient confidence in it that it will be able to succeed with that aircraft.

In recent years, British Aerospace has put tremendous amounts of investment into a variety of projects. Some instances have been mentioned in the debate. I can add the investments in varied military projects, all consuming enormous amounts of development funding from British Aerospace. Now we have come to the time when, after the large amount of development funding from the manufacturers, it would be appropriate for the Government to give a definite sign of support. In that, I come back to my original point. All the decisions need to be taken quickly. A decision in a year's time would be a waste of time. It would be a tragedy. Let us have the decision in weeks rather than months.

8.23 pm

Mr. Roger Stott (Wigan): It might be convenient if I intervene at this point in the debate to set out the Opposition's view on the A320. Throughout the debate there has been remarkable unanimity. As this is the season of good will, I assure everyone present that I have no intention of spoiling it. Indeed, I intend to join in that spirit of unanimity as the debate progresses to its conclusion.

Hon. Members who have spoken have made a case for the British Government to involve themselves in the project and provide launch aid for the A320. The hon. Member for Kingswood (Mr. Hayward), who introduced the debate, followed in the footsteps of his hon. Friend and close neighbour, the hon. Member for Bristol, East (Mr. Sayeed), who on 2 December raised the matter of the A320. Again, because it is Christmas, it is nice to find myself in agreement with the hon. Members for Kingswood and for Stevenage (Mr. Wood), who were bitter opponents of mine on the Telecommunications Bill. It is good to see unanimity in the House tonight on such an important issue.

My hon. Friend the Member for Preston (Mr. Thorne) said how much we were impressed by the lobby which we attended a couple of weeks ago, which was on behalf of the work force of British Aerospace. Members of the work force came from all over the United Kingdom. Admittedly, they were trying to influence the decisions of Members of Parliament on a whole range of issues, not just

the A320 and the agile combat aircraft, but helicopters. They feel that they are at a crossroads in terms of their future employment and future projects.

Mr. Hayward: The hon. Gentleman referred to the work force of British Aerospace. There were also representatives from industries outside British Aerospace, which reflects the importance of the decision not only to British Aerospace but to other parts of the British aerospace industry.

Mr. Stott: The hon. Gentleman should be used to me by now. I was going to turn over the page of my notes and say that the decision on the A320 is not limited to those who are employed in British Aerospace, for whom it is vital, but is important for our avionics industry, which produces the instrumentation that is likely to go into our future civil aviation projects — for example, Lucas Industries, and not forgetting Rolls-Royce, which has been mentioned in the debate.

I think that I can dispense with all the facts and figures that I have collated about the importance of the project and the orders that are likely to come in if the Government go ahead with the launch aid. The market between now and the year 2000 will expand. That is evidenced by the rapid development of airport capacity throughout the world. One has only to look across the Atlantic to see what Pratt and Whitney and Boeing are doing to meet future aviation needs. We cannot ignore. That need and the capacity.

I was interested to read in *The Observer* this weekend an article by Victor Smart and William Lord, which stated:

"Moves behind the scenes to inject private cash into building the 150-seater A320 airliner—and so defuse one of the biggest and toughest industrial decisions before the Government—have thrown up a flurry of proposals from merchant banks . . . Trade and Industry Minister John Butcher will come under pressure to reveal details of the Airbus financing. Opposition MPs are bound to raise fears that the City will cream off profits from the plane while enjoying Treasury financial guarantees."

The Minister knows my views about the public sector borrowing requirement and the fact that the City might be prepared to put up money for the launch aid for the A320. I would not imagine that that would necessarily count in the PSBR. I have long argued that such things should not count in the PSBR unless the loan is called in, which I hope it never will be in this case.

Another article by Victor Smart in *The Observer* referred to the agonising dilemma facing Europe. It said:

"But Britain does not have the stomach to pull out of the civil aerospace big league. Hard-won expertise would be thrown away at a time when other countries without this know-how (notably Japan) are paying dearly for admission tickets to the aviators' club. Re-entry would be prohibitively expensive."

We all share that view. Re-entry would be extremely expensive not only in terms of capital, the launch aid and research and development, but in terms of recruitment of engineers and designers, whom we could lose in the process. I am told that the Minister of State was on the radio today. He was interviewed about the topic that we are discussing and was asked:

"Now, what about the future of the British aerospace industry? Doesn't it depend on a decision in favour of British commitment to Airbus?"

The Minister replied:

"Well, this is obviously extremely important for our civil aerospace industry. We are only in the major civil aerospace projects, the large aeroplanes, through our membership of the Airbus Industrie consortium".

That part of our aerospace industry is enormously important to us.

The Minister was then asked:

"Could the civil aviation industry survive without Airbus?", to which he replied:

"I don't think one could answer that question absolutely categorically. I think I would say the A320 is enormously important for our remaining in the large civil aerospace field."

I second that comment. I agree absolutely and totally with the Minister. The A320 is essential to Britain if it is to remain in the big league.

I am reminded of a debate that took place a few years ago on whether launch aid was necessary or desirable. I served on the Standing Committee on the Aircraft and Shipbuilding Industries Bill, as several Opposition Members will be aware. That tortuous exercise brought British Aerospace into existence.

My right hon. Friend the Member for Manchester, Ardwick (Mr. Kaufman) who was then the Minister of State at the Department of Industry, announced during the proceedings on the Bill that the Government would support what was then Hawker Siddeley with launch aid for the HS146. I remember that comments were made about whether launch aid was necessary or if the money would be well spent. My information is that the HS146 is a very successful aircraft. It has been bought as a feeder aircraft by Western Airlines in the United States. It is currently flying and carrying passengers in California, the heartland of Boeing, so it is a competitive aircraft. If the Government had not supported the aircraft with launch aid, it would not now be flying, nor would it be commercially successful. The decision was right then and the decision is right now.

Mr. Wilkinson: Although the Government injected launch aid into the HS146, is it not remarkable, when referring to the A320, that early-day motion No. 249 has no fewer than 193 signatures? Does my hon. Friend the Minister recollect any other occasion on which such unanimity has been expressed by the House? In those circumstances, would it not be difficult for the Government, by not granting launch aid, to fly in the face of the concerted view of the House?

Mr. Stott: I am grateful for the hon. Gentleman's comments, but he is making my speech for me. I was about to conclude on somewhat similar lines.

It is generally recognised that the work force of British Aerospace is committed to its task. It is highly skilled, highly trained and superbly technically educated—very similar to the work force of British Telecom. One can draw a parallel. It has been at the forefront in the defence of its industry. It has done so with much persuasion and dignity.

It was unfortunate—I now enter into the spirit of Christmas, otherwise I would choose more condemnatory prose—that the right hon. Lady the Prime Minister equated the A320 with Concorde when dealing with an off-the-cuff Parliamentary reply about aid during Prime Minister's Question Time. The hon. Member for Stevenage said that there was no comparison between Concorde and A320. I hope that the Prime Minister will reflect on occasions that she is not the font of all wisdom and that such comments can be slightly damaging under the circumstances.

The House has had a remarkably good tempered and good humoured debate, and displayed a level of unanimity the like of which I have not seen for a long time. The Opposition's view is not can we afford the launch aid required for the aircraft, but, for all the reasons stated by

[Mr. Stott]

my hon. Friends and by Conservative Members, can Britain afford not to have a piece of the action for the next generation of civil aviation. The Opposition believe that we must support the project.

The Under-Secretary of State for Trade and Industry (Mr. John Butcher): There has, as many of my hon. Friends and Opposition Members have said, been an unnerving but understandable level of unanimity in the debate. My hon. Friend the Member for Cannock and Burntwood (Mr. Howarth) hinted that it may have something to do with the spirit of Christmas. I believe that the reason was that the debate and the issues were felt with great sincerity and not just for constituency reasons. Many hon. Members have been persuaded as to the merits of launch aid and have subsequently pressed the issue with great strength and vigour.

I thank my hon. Friend the Member for Kingswood (Mr. Hayward) who has done the House a great service and said, in his opening remarks, that this subject has become a non-party issue. He led us correctly to his view that productivity, which is one of the key aspects in launch aid is important, and that signs exist that British Aerospace and the aerospace industry are starting to move towards the levels of productivity which were hitherto enjoyed only in the United States.

We congratulate the work force and the management in moving fairly rapidly in that direction. My hon. Friend the Member for Kingswood said that we should examine ways of maximising our components, systems and avionics suppliers into the airframe, and that we should do everything possible to enhance the prospects of our subcontractors. He was right to point out, as did many hon. Members, that we are dealing with jobs and skills and with keeping teams of skilled people together. He pressed the Government to make a decision at the earliest possible opportunity.

The hon. Member for Eccles (Mr. Carter-Jones) prefaced his remarks by saying that he would indulge in a little nostalgia. Having spent my childhood on airforce bases, I shall not bandy words with the hon. Gentleman about the Mosquito or its power unit. The Government are keen that the V2500 continues in the fine Rolls-Royce tradition of excellence in aero engine manufacture. We are aware that the British supply industry has magnificent expertise in avionics. We have progressed in the sphere of radar in ways that other countries are only just beginning to understand. The healthy precedent was set when the hon. Gentleman was perhaps not feeling nostalgic but a little harassed with flak around him at the time.

My hon. Friend the Member for Kingswood asked several questions. I join him in saying that we wish to have a greater British representation at the senior level of Airbus Industrie as the opportunities arise. We join him in the congratulations on the Yugoslavian order, which is greatly welcomed. It is further evidence of the commercial appeal of the A320. My hon. Friend was absolutely right to say that the orders and options for the A320 are at the largest pre-launch level achieved. We agree in general terms with my hon. Friend's argument that the market estimates for the 150-seat aircraft in the 20-year period from 1988 to 2007 range from between 2,500 and 3,500. If we consider the projection by Airbus Industrie of 25 per cent. to 30 per cent., about 700 sales would result.

My hon. Friend the Member for Ruislip-Northwood (Mr. Wilkinson), the chairman of the Aviation Committee, reminded us that the industry has nothing to be ashamed of. We have produced some magnificent aircraft recently, such as the BAe 146, the Jetstream and the HS125. I join him in paying a tribute to the success of the Airbus to-date. He also mentioned the need to get a Rolls-Royce power plant specified as early as possible, and to urge Rolls-Royce that certification for suitability for incorporation in the aircraft should be pursued with great vigour. We are aware that a family of aeroplanes is one of the best marketing tactics.

The hon. Member for Preston (Mr. Thorne) paid tribute to the TASS lobby. I fully understand why he did that—he led about 25 per cent. of it. I cannot mention the hon. Member for Preston without mentioning my hon. Friend the Member for South Ribble (Mr. Atkins)—the erstwhile Member for Preston, North—who has ensured that I say nothing that may be contradictory. He has great expertise in this area, and would not let me conclude my remarks without mentioning the agile combat aircraft and the great dependence of the folk of Lancashire on that.

I have a common motivation with my hon. Friend the Member for Cannock and Burntwood. I would be delighted if a number of high-tech industries established their presence in the Cannock area. I know that my hon. Friend will continue to press me on that matter.

The hon. Member for Wrexham (Dr. Marek) pressed for an early decision. My hon. Friend the Member for Stevenage (Mr. Wood), who has great expertise in high technology projects, argued in this debate, as he has in others, that we should not take an ad hoc approach and that we should look at the way that "UK Limited" moves towards a higher added value industry.

I take issue with my hon. Friend on one point—I would change the emphasis in his projection for older industries. I want the older established industries to use high technology to maintain their future prospects and get into a higher added value industry.

The current Airbus range is undoubtedly the largest and most important civil aerospace programme in Europe today. The Government fully appreciate the significance of the Airbus programmes to both the British and the European aerospace industries. It is most gratifying to see the success which Airbus Industrie—in which the British stake is represented by British Aerospace's 20 per cent. partnership share—has achieved in establishing a position second only to Boeing as a manufacturer of wide-bodied civil aircraft, and demonstrating that a European collaborative venture can rival the major United States manufacturers.

If it is to sustain and consolidate the market position that it has won, Airbus Industrie believes that it must broaden its product range into a family of aircraft. British Aerospace has explained in depth the implications of the project for the company, including the employment aspects, the maintenance of design and technological skills and the importance of collaborative projects.

When British Aerospace was privatised in February 1981, it was stated that the company would have the same eligibility for Government finance as other companies in the private sector, and as its predecessor companies had prior to nationalisation. The Government stand by that statement and have repeatedly made it clear that we are prepared, in principle, to consider launch aid for participation by British Aerospace—and, indeed, by

other aerospace companies — in viable new projects. Evaluation of the British Aerospace application for launch aid in respect of the A320 is proceeding as a matter of urgency, and the Government hope to reach their decision shortly.

We shall use our best efforts to deliver a decision within the time—

Mr. Robin Maxwell-Hyslop (Tiverton) *rose*—

Mr. Butcher: I have only three more minutes—

Mr. Maxwell-Hyslop: When shall we have a decision?

Mr. Butcher: If I had been allowed to finish my sentence, I would have said that we were hoping to deliver a decision by the end of January, which is within the timescale mentioned by a number of my hon. Friends and Opposition Members.

On far too many occasions it has not been possible to achieve an adequate rate of return on the large sums invested in civil aerospace programmes by the Government and the companies themselves. Among the many civil aerospace programmes undertaken with Government support during the last 30 years or so, only the Viscount on the airframe side and the Spey, Avon and Tyne on the aeroengine side have sold in sufficiently large numbers for the Government investment to have been repaid in full.

It is essential not only to the Government in the context of the very substantial amount of public funds being sought, but to British Aerospace — as the major constituent of our airframe manufacturing industry, and as an employer — to be assured that there are sound prospects for the commercial viability necessary to ensure that the A320 can contribute effectively to the company's overall industrial strategy and technological base.

I was asked a particular question by the hon. Member for Wigan (Mr. Stott) about funding. I join him in commending the great skill within British Aerospace and the need to maximise that skill. We are naturally interested in mobilising private sector funding for the A320. Careful consideration will be given to proposals that merchant banks or city institutions can devise to operate either an alternative form of launch aid or in conjunction with the more traditional form of launch aid. No decisions or commitments have yet been made, and no formal proposals have yet been commissioned or received. I hope that that meets the hon. Gentleman's point.

The House has excelled itself in putting forward a number of resolute but well-reasoned arguments. It has acted not out of charity but out of sound business sense. These are precisely the criteria that the Government will utilise in making their now urgent assessment of the application for launch aid.

I thank all hon. Members on both sides of the House — as it is Christmas — for their speeches today.

Visiting Forces Act 1952

8.46 pm

Mr. Willie W. Hamilton (Fife, Central): This debate concerns the operations of the Visiting Forces Act 1952. Probably few people, including hon. Members, know anything about the Act. I knew nothing until my attention was drawn to it by the BBC television programme "60 Minutes" on 8 November. I subsequently obtained a script of the broadcast and asked the House of Commons Library to do some research.

I also obtained copies of the answers given by the Minister of State for the Armed Forces to questions asked by the hon. Member for Christchurch (Mr. Adley) on 11 November. He said

"The Visiting Forces Act has operated satisfactorily for 30 years and has not been amended by any subsequent Government." — [*Official Report*, 15 November 1983; Vol. 48, c. 407.]

I ask the House to note carefully the words "the Visiting Forces Act has operated satisfactorily".

I intend to prove that the very opposite of that assertion is nearer the truth.

The more that I studied the matter, the more worried and alarmed I became. Information produced by Mr. Duncan Campbell of the *New Statesman* both for the BBC programme and for his article in the *New Statesman* on 18 November must have been profoundly disturbing to large numbers of people who saw the programme or read the article. Mr. Campbell has written a book on these matters and probably knows more about the operation of the Act than anyone else. I understand that his book will be published early next year. He is an authority on the subject and he deserves our thanks, and the thanks of the nation, for serving the public interest in a matter of great concern to all.

I shall put the matter into its historical perspective. The Visiting Forces Bill was introduced in the House on 17 October 1952. It deals basically with all matters that must be regulated when armed forces of one country are stationed on the territory of another. The history of such legislation was outlined in that debate by the then Secretary of State for the Home Department, Sir David Maxwell Fife. He recalled that there were three earlier Acts—the Visiting Forces (British Commonwealth) Act 1933, the Allied Forces Act 1940 and the United States of America (Visiting Forces) Act 1942. He described how the 1951 Command Paper 8279 was presented to Parliament embodying an

"Agreement entered into between the North Atlantic Treaty Powers relating to the status of their forces in the territory of another North Atlantic Treaty Power.

The 1952 Act sought to implement by legislation those agreement obligations that could not otherwise be implemented— notably, the position of armed forces with respect to the criminal law and the settlement of civil claims.

Anyone who has read that debate in 1952 would find that it was a field day for the lawyers in the House, and not for the first time. The initial reaction of the Labour party spokesman, then Mr. John Strachey, the then Member for Dundee, West, was one of considerable caution and reservation. He said that, in important respects, the Bill

"goes further than any peacetime Act."

He said that there were three distinct cases in which the jurisdiction of the British courts was completely

file ackd 15/12 da

Dr. David OWEN, MP 22/12

Chased - on the way
23/12.

15 December 1983

I enclose a copy of a letter to the Prime Minister from Dr. David Owen M.P., about launch aid for the A320 Airbus.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach this office by 22 December if possible.

Timothy Flesher

Steve Nicklen, Esq.,
Department of Trade and Industry.

dfg



10 DOWNING STREET

~~David~~

re. your letter of 30 Nov. to Roger Bone.
FCO say that the points raised in your
letter were covered at the pre-Athens
briefing.

Content ?

Cameron

14/12/83.

CF

Yes thanks.

Davis

14/12

Alfred Morris MP



10/11

da

16/11
2 23/11

10 DOWNING STREET

From the Private Secretary

14 December 1983

I enclose a copy of a self-explanatory exchange of correspondence between the Prime Minister and Alfred Morris M.P.

I should be grateful if you would arrange for Mr. Morris to receive a Ministerial reply on the Prime Minister's behalf. May we please have a copy of the reply for our records in due course.

Timothy Flesher

Steve Nicklen, Esq.,
Department of Trade and Industry.

da



FILE
c 077
de

10 DOWNING STREET

THE PRIME MINISTER

14 December 1983

Dear Mr. Morris,

Thank you for your letter of 7 December with which you enclosed one from Sir Austin Pearce. I have asked Norman Tebbit to arrange for you to receive a reply direct on my behalf.

Yours sincerely
Alfred Morris

The Rt. Hon. Alfred Morris, M.P.

de

THE RT HON DR DAVID OWEN MP

CMA



HOUSE OF COMMONS
LONDON SW1A 0AA

12th December 1983

The Rt.Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London SW1

R 14/12

David Owen

I gather from Sir Austin Pearce that British Aerospace has made a presentation to you on the request for launch aid for the 150 seat A320 Airbus.

I have looked carefully into their request and grounds on which they believe that launch aid is vital if they are to remain a 20% shareholder in Airbus Industrie. I believe they have a well-founded case and hope your Government will grant them sufficient launch aid. I do not see any similarity to Concorde. This seems basically a commercial operation with some risks attached, but not unreasonable risks, and in the long-term raises technological consequences if Britain was not to remain a shareholder in Airbus Industrie.

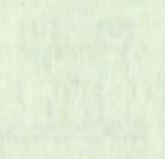
David Owen

David Owen

Aerospace Sept 83

HOUSE OF COMMONS
LONDON SW1A 0AA

COMMUNICATIONS



s

FROM THE RT.HON.ALFRED MORRIS,MP

~~CCMA~~



R9/12

CF any pps?
K.

HOUSE OF COMMONS
LONDON SW1A 0AA

7th December 1983

Dear Prime Minister,

I have received the attached letter from Sir Austin Pearce.

I shall be most grateful if you can let me have your comments to send on to him as soon as possible.

Yours sincerely,

Alfred Morris

Rt.Hon.Margaret Thatcher,MP
Prime Minister

aerospace 80PT 83

Presentation

FROM MEMPHIS TO WASHINGTON
AND BACK 1954-1960





British Aerospace

PUBLIC LIMITED COMPANY

From the Chairman,
SIR AUSTIN PEARCE, CBE

100 Pall Mall
London SW1Y 5HR

Telephone: 01-930 1020
Telegrams: Britair London
Telex: 24353

6th December 1983.

Dear Alfred

Recently British Aerospace made a presentation to the Prime Minister on the request for launch aid for the 150 seat A320 Airbus to remain a 20% shareholder in Airbus Industrie.

This presentation and the announcement of our major sale of the 146 aircraft into the USA received a lot of press comment not all of it accurate and as a result we have had requests for more information.

British Aerospace has developed the Jetstream 31 turboprop, the 125-800 Series executive jet, the BAe 146 commuter jet airliner and been involved in the development of the Airbus A300-600 and the A310. It has developed new communication satellites and missile systems and undertaken preliminary design work on the A320 wing. All these developments have been completed by British Aerospace using its own resources. Contrary to some press comment British Aerospace has not previously asked for launch aid under the 1949 Act, although launch aid was given to its predecessor companies BAC and HSA and more recently to Rolls-Royce.

The case we have made is a commercial one based on market assessments up to the year 2000. We have not used just one assessment, but have taken assessments from experts in France, Germany, the U.K., and the U.S.A., some of whom work in the aerospace industry and some who do not. We have then taken the most pessimistic outlook which indicated after using up all the current surplus of aircraft and taking account of the age of existing fleets, that there could be a world market of the order of 3,000 aircraft. Of these some

1200 would be needed in the U.S.A., we have assumed we will get very little of this market and of the rest Airbus will capture about 35%. As Airbus has over 50% of the existing market in which it is competing we have not, therefore, been over optimistic.

In pricing we have assumed that Boeing will be in this market and will set the price. We have used competitive prices in our assessments and accept that our costs must also be competitive. Based on these assumptions the project shows a real rate of return over the remainder of this century.

We share the Prime Minister's view that we cannot afford the commercial and financial problems of another Concorde. Unlike Concorde, the A320 design is based upon the most modern concepts without taking a quantum leap in technology and is aimed at an established broad market in taking into account all the foreseen environmental and safety regulations.

Our case is not that aid is needed to avoid the collapse of the industry and massive redundancy. It is based upon a detailed analysis of the market and the economics of that market.

Of course, there would be an impact on employment in British Aerospace of not proceeding with the project, and there would be a serious impact upon our involvement in the larger end of the civil aircraft market. However British Aerospace has a wide base with interests in smaller civil aircraft, military aircraft, missiles and space. Our problem is that because we have allocated resources for the development of the products we have in other sections of the Company we cannot also fund the resources for the A320 at the present time.

The point has also been made that if the A320 does not proceed this would present a virtual monopoly to the Americans which would not be in the U.K. interest. Nor indeed would it help other collaborative projects if we were thought of as unreliable partners, in, out, in, then out again, of the Airbus programme.

We believe the A320 is a necessary part of the Airbus family of aircraft to enable it to compete in world markets. To enable it to compete in the world markets we believe it should be capable of being fitted with the new Rolls-Royce engine as soon as it is available.

If A320 is a commercially viable programme you may well ask why British Aerospace does not raise the money itself rather than asking for Government launch aid.

The problem is one of timing; as mentioned we already have heavy commitments to other civil aircraft, military aircraft, missiles and space, and all of these we can fund. The A320 would create financing difficulties between now and the end of the decade.

While we believe we could raise the money by such means as increased borrowings, rights issues, project financing and zero coupon bonds, we believe the cost of servicing such schemes between now and 1990 is more than we believe we could prudently accept.

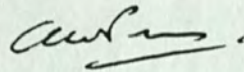
Launch aid under the 1949 Civil Aviation Act is specially designed to meet such circumstances. Other countries such as France, Germany, Spain, Italy, Japan and in different ways the U.S.A., apply comparable systems to their aerospace companies. All of our partners have received launch aid for current Airbus programmes. We have neither asked for, nor received, any because we have an objective of paying our own way.

The project is, therefore, proposed on a commercial basis and we believe it will be a commercial success. Of course, there are risks. I know of no business, particularly one which has a 20 year timespan, in which there are no risks, but we believe the risks have been sensibly assessed.

We believe British Aerospace should be a partner in the A320, but our problems centre around the period from now to the end of the decade after which we believe we could repay any Government investment with interest and with profits.

Without launch aid, we do not believe we would be able to take part in the A320. That would be a great blow to many who have put so much effort into developing this project and to British Aerospace.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "A. J. ...", with a horizontal line underneath.

CONFIDENTIAL

MJ



file

cc MoS, DTI
CS, HMT
DTRANS
MOD
DM
HMT

10 DOWNING STREET

From the Private Secretary

30 November 1983

The Prime Minister saw your Secretary of State's minute of 21 November about the A320 on her return from India.

The Prime Minister has noted your Secretary of State's view that a British decision to back the A320 could be exploited to our advantage in Europe. She has enquired by what means and in what context this might be done, and with what expected benefits. The Prime Minister has also commented that in some quarters Esprit and not the A320 is regarded as the most important European industrial collaborative project currently requiring a decision.

BF1

I should be grateful for further advice.

I am sending copies of this letter to the Private Secretaries to the recipients of yours.

DB

Roger Bone Esq
Foreign and Commonwealth Office

CONFIDENTIAL

Doc



(1)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF4976
Secretary of State for Trade and Industry

*pa
DMS
5/12*

30 November 1983

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Prime Minister

*Mr Tebbit refuses to be
rushed into a decision
on launch aid for the
A320.*

MF

D Geoffrey

*DMS
1/12*

A320

attached Thank you for your minute of 21 November.

2 At the end of the presentation to the Prime Minister on 16 November, I said that I would be examining the scope for a reduction in the amount of launch aid needed by British Aerospace to undertake the A320. My officials are now working on this question. I do not think it would be appropriate for me to invite colleagues to formally agree to launch aid in principle, leaving only the details of the amount and the mechanics of such aid to be settled subsequently. We might gain some short-term political benefit from an announcement: but we would lose important negotiating leverage vis-a-vis British Aerospace. I hope that my Department will be able to circulate before Christmas a report giving our considered thoughts on British Aerospace's financing needs. This will prepare the way for discussion among Ministers. But I doubt if we will be able to reach a collective view on the structure or amount of aid before mid to late January.

3 This will mean that, if the meeting of Airbus Ministers proposed by M. Fiterman goes ahead on 20 December, we shall not be able to enter into any commitments. I recognise that this may leave Norman Lamont in an awkward position - especially if the Germans prove ready to support A320. My Department is in touch with German officials in an attempt to concert UK and German positions as far as possible. It may be that we and the Germans can jointly agree to tell the French that the 20 December meeting should be postponed. Much will no doubt depend on the outcome of the Franco-German Summit meeting.



4 I appreciate that, if we cannot announce our decision until the latter half of January, it may be difficult to co-ordinate the presentation of our position on A320 with the decision which Michael Heseltine wishes us to take very shortly on the choice between Ariane and the US Shuttle as a launcher for Skynet. But I am sure you will agree that, given the importance of the A320 decision, we cannot allow considerations of diplomatic advantage to outweigh the need for proper reflection and analysis. When the Government does reach a decision on funding of A320 we must certainly look carefully at the most advantageous way of presenting it to the French.

5 I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Employment, The Secretary of State for Defence, the Secretary of State for Transport, the Chief Secretary to the Treasury, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath.

NORMAN TEBBIT

30 NOV 1987

12 1 2 3 4
5 6 7 8 9



FCS/83/243

MS

Prime Minister: To note.

The FCS seeks a decision on Airbus launch aid in December.

SECRETARY OF STATE FOR TRADE AND INDUSTRY

*DWS
22/11*

A320

1. I was sorry not to have been able to attend the British Aerospace and Rolls Royce presentations to the Prime Minister on 16 November.

2. I do not want to pre-judge your appraisal of the case for launch aid for the A320. As we agreed with the Germans in Bonn, we want the aircraft to make sense as a commercial proposition.

3. But you might find it useful if I draw attention to the European context in which this decision will be taken, as well as the timing of other European collaborative decisions.

*Dr. Nicholson
Wants
to print it*

4. I think, on balance, that the A320 is the most important European industrial collaborative project currently before us for decision, though there is also of course a strong international interest in the 2500 engine. A British decision to back the A320 could be exploited to our advantage in Europe, whereas a decision against, whatever its commercial merits, would leave us with a lot of ground to regain. This is a time when we are seeking to show our European partners that we take industrial collaboration seriously. Although it is not in itself a Community project, a firm commitment on Airbus could count for far more with President Mitterrand and Chancellor Kohl than an endorsement of many Community policies.

5. There are signs that the Germans are likely to adopt, very soon, the French commitment to back the A320 project, and it is possible - though we must monitor this - that there would be a move in this direction at the Franco/German Summit

/on



on 24 November. I also note that the French Minister of Transport has invited Norman Lamont and other European Ministers responsible for Airbus to a meeting on 20 December. This, given the existing French and Spanish commitment, could easily turn into an occasion in which the combined pressure of our partners is concentrated on us.

6. Meanwhile, we are faced with a number of other difficult decisions over Anglo/French industrial relations, including the choice between Ariane and the American Shuttle as a launcher for Skynet, which we shall be discussing in OD soon, and on which I minuted on 15 November to Michael Heseltine. The timing of decisions on the A320 and Skynet need watching particularly carefully in our relations with the French.

7. All this leads me to conclude that if we are able to take a decision in principle in favour of launch aid for the A320 - and, as I say, I am not trying to prejudge that decision - there could be diplomatic advantage in being able to announce it before long. I do not want to suggest that a decision needs to be taken in advance of the Athens summit. On the contrary, a decision after Athens will enable us to take the post-summit situation into account. I would also be wary of a decision leaking in advance of Athens if in the event it went against A320. The best opportunity would be either before or about the same time as our decision on Skynet, and also before the meeting of the Airbus Ministers on 20 December, if that date is confirmed. I realise that even if there were a positive decision of principle in favour of Airbus, it would take a good deal longer to complete negotiations with British Aerospace on the amount and terms of any launch aid.



8. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Defence, the Secretary of State for Transport, Chief Secretary to the Treasury, and the Minister of State for Trade and Industry.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

21 November, 1983

A small, handwritten mark in blue ink, resembling a stylized '3' or a similar symbol.

7654
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11 12 1
W

1983



Secretary of State for Industry

Aerospace
Prime Minister (2)

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

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

2 November 1982

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

Dear Leon,

A320 LAUNCH AID

Thank you for your further letter of 22 October on this subject.

2 My Department will bring the A320 to MISC 25 as soon as we are satisfied that the information from British Aerospace provides a complete picture of the most likely pattern of return from the project. The picture will clearly be dependent on some resolution of the engine problem. The A320 may well derive a marketing advantage if it can be ready for entry into service by 1987: but even if that date is not achieved, we are still contemplating a project which may have a selling life stretching through the last decade of this century into the first decade of the next. I cannot yet predict when we shall be ready for a discussion in MISC 25. There are some indications that the industrialists may decide to postpone consideration of the project for a while.

3 I do not think that, in the meantime, there can be any doubt in the minds of the other governments or of British Aerospace about the absence of commitment from HMG. We cannot avoid talking about the A320 to the French and the Germans. The subject came up at the Franco-German Summit and at the Anglo-German Summit and will almost certainly come up at the Anglo-French Summit. I am sure you would not wish us to say on such occasions that the British Government has decided, even before it had all the facts, that it had no confidence in British Aerospace's ability to participate in the project on a viable basis. We will continue to take the line that, as a preliminary to the consideration of launch aid, HMG must be satisfied that the A320 can earn a commercial rate of return.

4 I am copying this letter to the Prime Minister, Francis Pym, John Nott, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

*Your ever
Patrol*

Aerospace

A320

March 82



72 NOV 1982



Aerospac
Prime Minister (2)

The A320 project

looks moribund.

M/S 25/10

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

22 October 1982

Dear Secretary of State

MT

A 320

Thank you for your letter of 11 October, replying to mine of 4 August.

As I said in my earlier letter I am concerned that, although we have made it clear that we are not committed to supporting the A 320, the fact that we have been "studying" the project for such a long time may be creating the misleading impression that eventual support is a formality. This is certainly not the case. Indeed since I last wrote to you the A 320's commercial prospects have worsened and I am even more sceptical about the case for assistance.

I understand that at the recent Farnborough meeting of Airbus Ministers, which Norman Lamont attended, Airbus representatives discounted the possibility of getting any launch orders this year. They had previously hoped for a minimum of 60 such orders from at least 4 airlines by the end of the year.

Without such orders the project cannot be launched. Norman Lamont rightly made it clear at Farnborough that the Government could not contemplate providing support unless and until some launch orders had been secured. This was also the position of the last West German administration and I would be surprised if the new one took a different line.

Launch of this aircraft is therefore going to be considerably delayed and this delay raises the question of whether there remains any case for building it at all. I believe that the A 320 is aimed at the replacement market for old-technology aircraft due to be retired from about 1987-88 onwards. As it takes six to seven years to manufacture a new aircraft from the launch date the longer the launch is delayed the smaller the potential A 320 market.

Of course the airlines may extend the lives of existing aircraft and the A 320 may yet be built in time to catch the replacement market. But even if it is available in time airlines may not buy

it in large numbers. They may prefer to purchase intermediate technology aircraft such as the 737 - 300 and DC9 - 80. Although these aircraft will be slightly less fuel efficient than a brand new aircraft like the A 320 they will be a lot cheaper. If, as looks increasingly probable, real oil price rises over the next decade or so are fairly moderate airlines may well prefer cheaper aircraft to the A 320.

There is a problem too over the engine for the new plane: either Rolls's RJ500 or its GE/SNECMA competitor. Understandably neither producer is willing to commit finance to development until enough airlines have placed launch orders to provide a reasonable commercial prospect. We seem to be in a chicken and egg situation with the airlines waiting for the engine producers who are themselves waiting for the airlines. It is not easy in present conditions to see a way out of this impasse and I am very sceptical whether there is any point in pursuing a project which for the foreseeable future appears to have so few prospects of commercial success.

For these reasons I still think that an early re-assessment of the A 320 by Ministers would have been useful. But I do not wish to press you to hold a Ministerial discussion until you are ready and I am content for officials to defer the work before the issue is presented to Ministers. However, I would like to have at least a preliminary discussion of the issues quite soon and so hope that work in Mr Sparrow's Group can proceed as quickly as possible.

I am copying to the Prime Minister, Francis Pym, John Nott, Norman Tebitt, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

Yours sincerely

J. G. Gien

f. LEON BRITTAN

Approved by the Chief Secretary
& signed in his absence

A320 - European Airbus / ^{Aerospac} March 82

AEROSPACE Prime Minister (4)

MUS 12/10



Secretary of State for Industry

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

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

11 October 1982

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

Dear Leon,

A320

I am conscious that I have not formally responded to your letter of 4 August on this subject. We have, of course, touched upon the A320 case in our bilateral PES discussion.

2 I do not think there is any danger of misunderstanding, either within British Aerospace or at the level of the other Airbus governments, over our position on the A320. Norman Lamont has made it quite clear to Sir Austin Pearce that BAE must demonstrate the project's viability before the case for launch aid can even be considered by Ministers collectively. At the most recent meeting of the three "Airbus Ministers" from France, Germany and the UK (Farnborough, 9 September), Norman again stressed to M. Fiterman and Herr Gruener that HMG would need to be satisfied that the A320 could earn a commercial rate of return. The German Minister took very much the same position.

3 We have now received preliminary information from British Aerospace in support of their application for launch aid. But there are a number of aspects which will need to be pursued further with the company - not least the uncertainty surrounding the engines. Pending the outcome of these discussions, I do not think it would be productive for us to have a discussion among Ministers. I think we should stick to the traditional route whereby officials will consider the relevant information, once it has been fully processed, within MISC 25 under John Sparrow's chairmanship. This will open the way for a discussion among Ministers, probably in E(EA), at the appropriate moment.

4 I am copying this letter to the Prime Minister, Francis Pym, John Nott, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and John Sparrow.

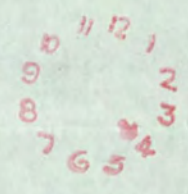
Your ever
 Peter

ARospace, March '82,
A320

12 OCT 1982



12 OCT 1982



Prime Minister 2
Aerospace

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

The Chief Secretary pours
cold water on any idea that
he might give launch aid
to the A 320 narrow bodied jet
project, and warns the Department
of Industry not to give the impression
that the UK will necessarily
participate.

WN 5/8
4 August 1982

Patrick,

MS

A 320

attached

attached

Earlier this year I exchanged letters with Norman Lamont about this project. Norman's letter of 30 March reported that the case for providing launch aid for the project was being explored. I express doubts whether a case could be made out in my letter of 5 April.

Since then I understand there have been a number of discussions between British Aerospace and Airbus Industrie and between Governments about the project. I believe that these have taken place at all levels, both political and technical. Norman, at a meeting with M Fiterman in May, emphasised that there was no question of the British Government being committed to the project at this stage, and I am sure this is generally understood by all concerned in a broad sense. Nevertheless, I am concerned that these discussions are creating an impression that the UK would almost certainly participate in the project, and the more the discussions continue the more likely it is to be assumed that a public declaration of support is a mere formality.


I am concerned too at the scale of the financial and manpower resources, both managerial and technical that British Aerospace are devoting to both the project and to the preparation of a formal launch aid presentation. Inevitably strong expectations are being built of eventual Government support. We must not drift into a situation where UK participation on the basis of substantial launch aid comes to be regarded as a foregone conclusion.

There is already available a great deal of information and data about the project and I am bound to say that what I have seen confirms my earlier serious doubts about the case for providing launch aid for this project. My doubts arise on two main counts. First, on a realistic and reasonably central view about the level of likely sales and the exchange rates that can be expected to prevail over the life of the project, the A320 does not seem likely to produce a commercially viable rate of return.

I recognise however that A320 is important for the future of BAe, as well as for our relations with Airbus Industrie and indeed with the participating Governments. My feeling is that we have sufficient information available now to hold a worthwhile discussion with colleagues. Indeed we may be able to reach a view as to whether it is worth pursuing the current studies with the possibility of launch aid being made available or whether the project is too risky and support could not be provided. If there is agreement that such support is not justified, then BAe should be told quite firmly that if they continue to participate they should do this in the expectation that their share in the funding will need to be found from within their own resources. If you agree I suggest that we should aim for such a meeting as early in September as possible.

But even if the meeting decides that current studies should continue, there remains the problem of your Department's bid for additional funds which we shall be discussing in the bilateral within a few weeks. Your launch aid bid for the forthcoming PES round includes £15 million next year, £50 million in 1984-85 and £55 million in 1985-86 for the A320. But the urgent requirement is to find savings and not additions to your public expenditure programme, and I really cannot see how it will be feasible to accommodate this bid without offsetting savings. This aspect of the matter will, however, naturally have to be considered within the context of the Survey, rather than at the meeting that I have suggested.

I am copying this letter to the Prime Minister, Francis Pym, John Nott, Norman Tebbit, Arthur Cockfield, Sir Robert Armstrong and Mr Sparrow.



LEON BRITTAN

164 AUG 1962

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4 5 6 7 8 9 10

Mr Chivers
Dr Kosmin
Mr S R Thomas
Mr Lovell
Mr Halligan
Mr Ridley
Mr Harris



cc PPS
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Mr Ryrrie
Sir A Rawlinson
Mr Quinlan
Mr Hansford

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State
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5 April 1982

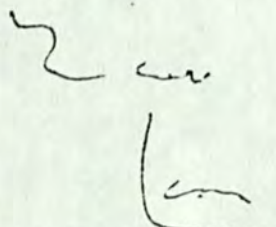
A320

Thank you for your letter of March 30th. I have also seen Humphrey Atkins' letter of March 31st.

I am sure you are right that the Government should not interfere with British Aerospace's commercial judgement about their appropriate share in the project. I agree with Humphrey Atkins' comment that the most should be made of British Aerospace's "concession" in future negotiations. I understand that at yesterday's meeting in Toulouse British Aerospace did not fall back to the 20% option and kept their bid for 30% on the table.

You were of course, quite right to make the point to Sir Austin Pearce that there is no HMG commitment to launch aid. I have considerable reservations about whether we can contemplate assisting British Aerospace in this way. The whole point of privatisation was that the company should take commercial decisions about future projects, raising the necessary finance for them on the market. I therefore am inclined to the view that if British Aerospace wish to undertake this project they should seek market funds rather than approach the Government for money.

I am copying this letter to Humphrey Atkins, Tom Trenchard, Geoffrey Pattie, Iain Sproat and Sir Robert Armstrong.


LEON BRITTAN

CONFIDENTIAL



From the
Minister of State

Norman Lamont MP

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Whitehall
London SW1

Leon Brittan

CHIEF SECRETARY
30 MAR 1982
MR Lovell
PPS FST EST
MST(C) MST(H)
SIR D WASS
MR Pyrie

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

Mr Quinlan

Mr Mansford

Mr Chivers

Mr Ridley

Mr Harris

30 March 1982

A320

You will be aware of British Aerospace's interest in participating in the proposed new Airbus Industrie A320 project. The A320 will be a 150-seat narrow-bodied jet designed as a replacement for existing aircraft types like the Boeing 727, the DC9 and the BAC1-11 which airlines will need to replace towards the end of the decade. In Airbus Industrie's eyes, the A320 would complement the existing wide-bodied A300 and A310 models (for which BAe make the wing boxes) - and reinforce Airbus Industrie's position as Boeing's main competitor.

British Aerospace currently have a 20% partnership share in Airbus Industrie. They have been considering various options for the level of their possible participation in the A320. The main choice has been between:

- i A 30% work-share involving design and manufacture of the front fuselage, and final assembly of the aircraft in the UK, and
- ii a 20% share now identified as involving design of the complete wing and manufacture of the wing box.

Now that British Aerospace are a private sector company, the Government's involvement rests on the fact that BAe have requested launch aid as a precondition for their participation. We still await full information from the company to enable us to consider this. By way of illustration, BAe's share of the development costs might be some £435 million at the 30% level and £290 million at the 20% level. Clearly there can be no question of any commitment to launch aid until the BAe case has been processed and Ministers collectively gave had time to form a view. But BAe are under strong pressure from their Airbus partners in France and Germany to agree on the pattern of



work-sharing in the A320 should the project proceed. Until work-sharing is settled, Airbus Industrie cannot credibly offer the aircraft to prospective customers and the market response is clearly a major element in considering the project's viability.

In favour of the 30% option it has been argued that:

- a the UK would gain greater influence within Airbus Industrie, which is currently dominated in practice by the French, and more effectively challenge the French bid for European aerospace supremacy;
- b BAe would have more say in the selection of equipment so as to ensure that British suppliers get a better share than they have achieved in the wide-bodied Airbus models (currently below 10%).

British Aerospace have, however, now reached the conclusion that their "industrial" case for the 30% option is untenable. The duplication of assembly facilities in Toulouse (for the A300 and A310) and in Bristol (for the A320) would be costly. And the partners would expect BAe themselves to bear all these additional costs - which might involve a capital outlay of £100 million. The effect of this additional expenditure would, in BAe's view, be to impair the chance of an economic return on the project to the point where it would not be prudent to proceed. It was always recognised that the French would strenuously resist the transfer of assembly work from Toulouse: more recently it has become clear that both the French and German industrial partners strongly wish BAe to undertake the wing (in which area they have proven expertise).

BAe have accordingly informed me that they propose shortly to tell their Airbus Industrie partners that they will not pursue the front fuselage/final assembly option and that they will accept a 20% share based on the wing, provided they have full design authority. In return for this "concession" they will endeavour to extract some form of undertaking in relation to British equipment suppliers.

I can see no basis for restraining British Aerospace from acting as they now propose. They must (and I have made this clear to their Chairman) make it clear that HMG has given no commitment on the availability of launch aid for the 20% option. But, as I see it, there are no considerations of "aerospace policy" which would lead HMG to push BAe towards a larger share in the A320 than the company wishes, industrially and commercially, to accept. We shall need to bear the interests of British equipment suppliers in mind. I would expect it to be a condition of any launch aid that the arrangements for equipment



selection were satisfactory to us. In the last analysis, an A320 with British wings and powered by the RJ500 engine could still represent a major "British" presence in the international aircraft market.

You must recognise, nonetheless, that there will be political criticism - on the grounds that the UK is not "standing up to" the French by demanding front fuselage/final assembly. The Unions have mounted a substantial campaign in favour of the 30% option. We have an adequate defence. But I felt colleagues would wish to be advised of the position at this stage. The next relevant Airbus meeting is on 31 March: and I understand that BAe will use that opportunity to pursue their new ideas with the partners. To safeguard this negotiating position, BAe will need to play their hand with great skill: it is unlikely that their fall-back to the 20% option will be declared at the end of the 31 March meeting. For the moment, therefore, this information about their intentions must be regarded as extremely sensitive.

I am sending copies of this letter to Norman Tebbit, Tom Trenchard, Geoffrey Pattie, Humphrey Atkins, Iain Sproat and Sir Robert Armstrong.

Yours

Norman

NORMAN LAMONT

