

Fraser 2

*cc pass
NJS*



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

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Tebbit MP

Prime Minister

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

*You asked Mr Tebbit
to provide a note. It
has also gone to Lord Soames.*

5 February 1981

*Would you
ask Mr
if Christopher Soames
can have a
copy of this
note
MAD
6/2*

Dear Mike

CONCORDE COST-SHARING

Thank you for your letter of 130 January.
I enclose a brief note on Concorde Cost
Sharing, which has been approved by Mr Tebbit.

I am copying this to Francis Richards (Foreign
and Commonwealth Office), Jim Buckley (Lord
President's Office) and Terry Matthews
(Treasury).

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary



TS/14/06

ANGLO-FRENCH COST SHARING

1 The 1962 Treaty between Britain and France on the Concorde project provided for equal sharing of costs and work but gave no guidance on:-

- a what was to be compared;
- b the method of calculation to be used;
- c the means of remedying an imbalance, other than by transfer of work.

2 The question of equal sharing has been brought to a head in the last few months as a result of efforts by British officials. Against the background that each country has spent over £2000 million (at current economic conditions) on the Concorde project, British officials argued that we had spent some £200 million more than the French, ie corrective action in our favour to the tune of £100 million was needed.

3 In contrast, French officials argued that they had spent some £200 million more than we had. They could do this only by:-

- a excluding intra-mural costs eg those of RAE, Farnborough;
- b including VAT expenditures but not receipts;
- c including Air France operating losses (outside the Treaty's scope);
- d using methods of calculation which gave special weight to particular reference years, rather than due weight to all years.

4 It was common ground that there was no scope for transfer of Concorde work.

5 Mr Tebbit and M. Hoeffel, the French Minister of Transport, discussed at an unannounced meeting in Paris on 19 January a Situation Report by British and French officials. They had previously agreed that it was desirable to seek a political solution. Mr Tebbit argued that the sound political approach was to follow Anglo/French precedents on military and civil



cooperative projects, all of which supported the British position. M. Hoeffel argued that Concorde pre-dated these precedents; he supported his officials and implicitly suggested a political deal whereby it would be agreed that each side's claims cancelled out the other's.

5 Mr Tebbit said that this was not politically acceptable. M. Hoeffel said that, even if he believed the British arguments (which he did not), he could not admit them, since he could not defend politically any payment by France to Britain.

6 The apparent deadlock was somewhat tempered by the ghost of a French suggestion that some benefit for Britain might be found in the context of the Airbus programme. The British side had in any case had in mind that this might be the way forward, especially in the context of the waiving of subsidies which Britain would otherwise have to pay if Rolls-Royce engines were selected for the Airbuses purchased by Saudia and subsequently for other Airbuses. It now appears, however, that Rolls-Royce has lost the Saudia engine order.

7 It seems clear that the French Government will neither explicitly nor implicitly admit that there is a Concorde imbalance against the United Kingdom. However, in recognition of the weakness of their position (which they have not admitted), they may be willing to let a compensating benefit come our way, provided this involves no financial payment by the French Government. Our present strategy is to maintain pressure on the French against the day when another opportunity emerges like the hoped-for Saudia engine deal. Our judgement is that, if a claim on the French Government is made publicly, they will publicly reject it and dig their heels in. This would then close off the chance of getting compensation in the Airbus context, or indeed in any other appropriate context.

Department of Industry
3 February 1981

5 FEB 1981

