



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.

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30 January 1984