

SECRET AND PERSONAL

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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.

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SUBJECT

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c. Master Set

NOTE FOR THE RECORD

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

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