

cc NO

Prime Minister ①



JF5825

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.