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From the
Minister of State
Norman Tebbit MP

✓ the letter

The Rt Hon Sir Keith Joseph Bt MP
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22nd June 1981 *12* *376*

D Keith,

GOVERNMENT REPLY TO SELECT COMMITTEE REPORT ON CONCORDE

1 I am writing to you, as Chairman of E(EA), to seek your approval, and that of those to whom this letter is being copied, to the attached Government reply to the Report by the Select Committee on Industry and Trade on Concorde (HC 265). The reply would be presented to Parliament in mid-July as a Command Paper under your name, possibly in association with that of John Biffen.

The Committee's Inquiry and Report

2 Although Concorde has been examined several times before, the present inquiry was the first substantive consideration by a Parliamentary body of the aircraft's in-service support phase. It was therefore welcomed by the Department, which along with British Aerospace, Rolls Royce and British Airways gave the Committee every assistance. The Department submitted six memoranda in all, the first jointly with the Department of Trade. I appeared before the Committee on 4 February. In accordance with the line proposed by my predecessor in his letter to you of 12 December and endorsed by my colleagues, I drew attention to the many complexities and uncertainties attaching to a collaborative project of this kind, and agreed that updated estimates of the relative costs of continuing and of cancelling Government financial support should be supplied. The former were based on the Department's PES 1981 forecasts, and were submitted as being the current best estimates by officials, with no commitment by Ministers.

3 The Committee's original intention had been to present a relatively brief and early report. This would have come between their very protracted inquiry into imports and exports and their next substantive inquiry; would hopefully have been published

Requested from Trade



before Christmas; and, in the expectation of at least some members of the Committee, would have pointed to cancellation as being demonstrably substantially cheaper than continued Government support.

4 Several events combined to frustrate these expectations. The Committee considerably overshot the time they had allocated to completing the import-export inquiry; the subject matter proved much more complex and intractable than the Committee had bargained for; and the Department's calculations of the relative costs of continuation and of cancellation showed no significant savings during the maximum lifetime of the present Parliament.

5 Most important of all, however, was the fact that even before the Committee had begun their inquiry the Department, in conjunction with MOD (PE), the two British manufacturers and the French authorities, had begun a series of measures designed to reduce Concorde project expenditures and to increase receipts. These actions, taken in the interests of good project management and seeking full advantage of the opportunities provided by reduced airline utilisation of the aircraft and engines, led to progressively lower forecasts of the net costs of continued Government support.

6 The Committee - and this may be a feature of inquiries into other Departmental spending programmes undergoing similarly rapid change - found it difficult to adjust to this successive revision of the data, and to the necessarily qualified nature of the assessments based on it. In the end, they simply decided to call no oral evidence on the three additional Departmental memoranda they had requested at the hearing on 4 February. They proposed instead that the Government should appoint independent consultants, the results of whose appraisal should be made available to Parliament in the Government's reply.

The Government's Reply

7 Not surprisingly, given this background, the Committee's report is generally critical of the project, and of the evidence given by the Department and other witnesses. They have three main recommendations, of which (b) and (c) are presented as alternatives:-

a For a thorough and urgent appraisal by independent consultants of all the factors surrounding continued expenditure on Concorde up to 1990 and possibly beyond.

b HMG to take action to reduce the incidence of these costs of public funds.

c HMG to enter early discussions for agreed discontinuance of Concorde operations at the earliest possible date.



8 The proposal that the Government should appoint independent consultants is quite unacceptable. This would not help the Government better to discharge its responsibilities for the administration of the project; and, in relation to Select Committee inquiries generally, to concede this in the case of Concorde would create a precedent to which this and all other Departments with spending programmes subject to Select Committee consideration would be vulnerable if a similarly capricious view of Departmental calculations were to be taken on some other occasion.

9 The second proposal, that of reducing public expenditure on Concorde, is fully acceptable as being in line with current Government policies. The draft reply therefore concentrates on this, while not neglecting the Committee's other alternative, that of agreed cancellation. The latter is, however, not at present on offer from the French; we could not ourselves propose it without undermining our case for a settlement, in our favour, of Anglo-French cost sharing imbalances; and such - admittedly incomplete - evidence as we have (paragraph 6 of the reply) suggests that cancellation would now be more costly than continued support.

10 In contrast to the Committee's report, the tone adopted in the draft reply is intentionally both smooth and firm. This, I suggest, is more likely to prevent Parliamentary opinion coalescing behind the Committee - with the awkwardnesses that this would present for the Government in its relations with Select Committees generally - than a more forthright approach. This is particularly necessary, given the Committee's declared intentions, in the final paragraph of their report, if no speedy appraisal takes place or if they are not satisfied with its outcome, to propose a reduction either in the Concorde subhead (if the House's supply procedure rules are amended to permit a debate on a specific proposal) or, if not, under SO 18 (10) in relation to the "total amount" of the Estimates of which expenditure on Concorde forms part.

The Parliamentary Factors

11 It will be primarily for Francis Pym and Michael Jopling to advise on the issues raised in the previous paragraph. On other points, the reply seems sufficiently comprehensive and self sufficient not to require a Statement after Questions, though answers to arranged Written Questions in both Houses would be appropriate. It would not seem necessary to concede, particularly in the run up to the Summer Recess, a Debate in Government time; but we should stand ready for one to be initiated on the Adjournment Motion. In line with our generally low keyed approach, I think we should avoid a Press Conference. However, some selective briefing of Lobby and Air Correspondents could be helpful in getting our message across.

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12 I am copying this letter and enclosure to the Prime Minister, to all members of E(EA), to Christopher Soames, Ian Gilmour, Francis Pym, Michael Jopling and Tom Trenchard, and to Sir Robert Armstrong. I would appreciate comments by Monday 29 June.

Norman

NORMAN TEBBIT

17 June 1981

GOVERNMENT REPLY TO REPORT OF SELECT COMMITTEE
ON INDUSTRY AND TRADE ON CONCORDE (HC 265)

TEXT

1. The Government has noted the Committee's report, its conclusions and recommendations, and has the following comments.

Government Policy on the Future of
Concorde Financial Support
(Recommendation viii)

2. The Committee recommend that the Government should be ready either to reduce the incidence of Concorde costs to public funds, or to enter into early discussions with all interested parties to ensure

COMMENTS

Paragraph 1

This is standard wording.

Heading and Paragraph 2

(a) The Committee have postulated two alternative policies. While not neglecting developments since the publication of the Committee's report which would affect the balance between the relative costs of continuation and of cancellation (paragraph 6), the reply deliberately concentrates on the first alternative.

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speedy agreement to discontinue operation of the aircraft at the earliest possible date. Since the Committee's report was published the Government's efforts have been concentrated on the first alternative. As indicated in paragraph 6 below, in present circumstances this offers substantial opportunities for bringing down the costs of continued support to well below those of cancellation.

- (b) The decision to play down the Committee's second alternative minimises the risk further wrangling over the continuation/cancellation costs scenarios. It also avoids speculation, and the giving of possible negotiating hostages to fortune, should agreed cancellation prove to be both on offer from the French and in HMG's interests to accept. Neither has yet been established.
- (c) The heading makes it clear that what is at issue is the future of Government financial support on project account, not the future operation of Concorde aircraft in airline service (which raises other and wider issues for both Governments and their respective airlines), nor the termination of the 1962 Agreement (which raises yet other issues).
- (d) The second sentence is taken from the Minister for Industry's (Mr Tebbit) letter of 8 June to the Chairman of the Committee. The words "since the Committee's report was published" allows for a future shift of emphasis to

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the second alternative, should developments suggest this to be desirable.

Reduction in Concorde Project Expenditures (Recommendation via (a))

3. In their written and oral evidence to the Committee the Department of Industry explained why expenditure on Concorde should in future be on a declining trend. In 1981-82 project expenditures, net of receipts and at 1981 PES prices, are estimated to be some 25% below the now expected outturn for 1980-81.

Paragraph 3

(a) Reductions in Concorde support expenditures and increases in receipts have been a continuing Departmental policy since the aircraft entered airline service in 1976. Over the last couple of years the limited use made by the airlines of the aircraft and its engines have enabled this policy to be intensified. The objective in the remaining paragraphs of this section of the reply is to summarize the financial results, past, present and future, while leaving enough in reserve to be able to point to further savings should the White Paper be subsequently be debated in either House of Parliament.

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(b) Thus paragraph 3 deals with the efforts to cut costs to date, as detailed in the Financial Estimates for 1981-82; paragraph 4 with the PES 1981 forecasts which take the position up to 1984-85; while paragraph 5 gives details of the estimated savings from the largest of the PES 1981 contingent items. Paragraph 6 summarizes its effect on the calculations of the relative costs of continuation and of cancellation, while paragraph 7 holds out the prospect of further savings, but deliberately does not go into detail as to their composition or timing.

(c) The 25% reduction is based on the latest available information on the outturn for 1980-81, which show a rising tendency compared with earlier forecasts, as given to the Committee in the Department's memorandum of 3 March 1981.

4. As the Department's memoranda of 3 and 23 March 1981 indicated, further substantial reduction are

Paragraph 4

(a) As with paragraph 3, this gets on record the substantial reductions in Concorde net

expected in future years. Full details of the items and amounts involved were given in the memoranda. Compared with 1981-82, these entail a forecast decline of some £14 million (52%) at 1981 PES prices in net project expenditure to 1984-85.

5. This reduction does not take into account the expected substantial savings from the PES 1981 contingent items, referred to in the Annex to the Department's memorandum of 3 March 1981. The most important of these is the curtailment of the

expenditures as already given to the Committee, but not taken into account by them.

- (b) Thus they took no oral evidence on the additional memoranda that they had requested; nor did they seek explanations through informal contacts involving their specialist advisers.
- (c) In fact, the published Minutes of Evidence substantially understate the amount of information given to the Committee which they might have examined had they been so minded. This included, in the memorandum of 23 March 1981, details of British Aerospace and Rolls-Royce expenditures by contract headings, but not reproduced at the Department's request because of commercial confidentiality.

Paragraph 5

- (a) Presentationally this is a key paragraph, since the savings involved are substantial, both in relation to the costs of continued support, and relative to the estimated costs of cancellation, to which reference is made in paragraph 6 below.

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fatigue testing programmes from which a total saving, compared with the present programmes, of some £63 million at 1981 PES prices is expected. Of this, £24 million is estimated to accrue in the years to 1984-85, the period covered by the current PES and by the Department's calculations of the relative costs of continuing and of cancelling HMG's contracts with the manufacturers. Details of what would be involved as a result of curtailment, and of what financial benefits to HMG would need to be established to justify expenditure on further testing, have been put to the French authorities with a view

- (b) The £24 million of savings to 1984-85 have now become sufficiently firm as to amount and timing for this item to be removed from the PES contingent items, and from the Department's option cuts proposals (where it had been included among the "functions at reduced levels"), and the savings in question deducted from the PES 1981 baseline (PES 1980 revalued) to give a new and much reduced level of PES 1981 forecasts and Departmental requests.
- (c) Details of the arrangements described in this paragraph will be put to French officials on 26 June, with an indication that they will form the basis of the British Ministerial position as the meeting of British and French Concorde Ministers later this year. They will then be put to British Aerospace on 3 July as the basis for their programme of work, and that of RAE Farnborough, until such time as British and French Ministers jointly decide whether there is a cost effective case for further supersonic testing to extend the potential service life of Concorde beyond that covered by testing that has already taken place.

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to an early joint decision being taken. Meanwhile, until details of future arrangements can be agreed, supersonic fatigue testing, being well in advance of Concorde airline utilisation to date, has been temporarily suspended and work begun on non-supersonic testing to confirm the integrity of the aircraft structure taken as a whole.

6. The expected £24 million of fatigue specimen savings to the end of 1984-85 brings the estimated costs of continuation, as given in the Department's memorandum of 3 March 1981, to some £20 million less than the estimated costs of mutually agreed cancellation (which were then

Paragraph 6

- (a) This is a new paragraph; and along with an expanded paragraph 2 is intended to meet criticisms that the earlier draft concentrated on the first of the Committee's alternative policies to the total exclusion of that of possible agreed cancellation.

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put at £42 million). Some reduction in the latter figure is to be expected when the costs of mutually agreed cancellation are next recalculated; but these would have to fall by nearly one half to bring them to a level equal to the costs of continuation, adjusted for fatigue test savings.

7. The Government intends to continue action across a broad front to bring about further-

(b) The paragraph summarizes the present state of the Department's ability to quantify the relative costs of continuation and of cancellation, and puts the costs of continuation so far below those of cancellation as seemingly to preclude cancellation as a practical option for the time being.

(c) Like all assessments based on changing data, this is necessarily an interim appreciation. Thus the second sentence of paragraph 6 envisages that, when information exists to make a comprehensive recalculation of the relative costs of continuation and of cancellation, the latter may be expected to be reduced; while paragraph 7 and its commentary envisages that the estimated costs of continuation will also be reduced. While such reassessment will be carried out when the necessary information becomes available, this will not be until some time after the Government's reply has been published.

Paragraph 7

(a) In continuation of the Department's earlier, deliberately cautious, approach this does

savings, including but not limited to the 1981 PES contingent items in Concorde project expenditures and increases in receipts. Developments will continue to be made known to Parliament.

Appointment of Independent
Consultants (Conclusion v and
Recommendations vi and vii)

8. The Committee criticise the

not seek to quantify contingent savings, for which claims can only be made with assurance when savings become sufficiently firm for them to be included in the Department's PES 1981 forecasts (as has now happened with fatigue testing).

- (b) Nevertheless a number of such savings are expected to move into that category before the end of the Summer Recess. It is too early yet to be sure which items will be affected; and the question of if, when and in what manner these further savings should be announced will be for later consideration.
- (c) Meanwhile all the savings, along with those originally included in the Department's PES 1981 proposals (which will be progressively adjusted to reflect additional savings), will be taken into account in the Public Expenditure White Paper to be published in Spring of next year.

Paragraph 8

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Department's estimates on the basis that their assumptions are questionable; that the figures have been adjusted frequently; and that they suspect that the Department have consistently played down expenditure and played up income from continuation while taking a consistently gloomy view of the costs of cancellation. They therefore recommend a thorough reappraisal be made urgently by independent consultants and that the results be made available in the Government's reply.

9. As regards the first point, the Department do not accept that their assumptions, and those of

- (a) This contains, in summary form, all the stated considerations which led the Committee to recommend the appointment of independent consultants, and the expected role which the Committee see them as performing.
- (b) Ensuing paragraphs therefore begin by demolishing the Committee's case for the appointment of independent consultants (paragraph 9, 10, and 11), before going on (in paragraph 12) to assess the usefulness or otherwise to HMG of such appointment producing informed and accurate appraisals, as a basis for future policy making.

Paragraph 9 Preamble

- (a) The first two assumptions referred to by the Committee (Conclusions v (a) and (b)) were

others which have been included in the Department's calculations, are any more questionable than in the case with any other commercial, industrial or economic forecast. On the specific matters raised in Conclusion v they note that:-

(a) British Airways assumption that reduced utilisation would lead to a turn round from loss to surplus is explained by the cessation of the Singapore service, the losses on which were

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made by British Airways rather than the Department; while the redundancy costs of cancellation (Conclusion v (c)) are based on assumptions by British Aerospace, Rolls-Royce and British Airways about what proportion of their Concorde workforce they could redeploy, and what redundancy payments would have to be made to the remainder.

- (b) The preamble therefore refers to assumptions made by others, as well as by the Department directly.
- (c) Where the reply refers to assumptions by the former, it will be necessary to confirm the proposed wording with the parties concerned.

Paragraph 9 (a)

(a) In Conclusion v (a), on which paragraph 9 (a) is a commentary, the Committee question, not the absolute amount of British Airways future operating surpluses which the Department have taken into account in their calculations of the net costs to public funds of continuing the Concorde project, but the assumed turn

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more than sufficient to offset any surplus earned on the North American routes.

(b) Forecasting in this area is naturally difficult; but the British Airways assumption of an increase in fuel prices of 5% annually in real terms should be judged against the background of recent

round from loss to surplus on reduced utilisation.

(b) Paragraph 9 (a) tackles this Committee observation. The Committee's doubts about the assumptions used in calculating the absolute amount of British Airways operating surpluses, as set out on Conclusion v (b), are dealt with in paragraph 9 (b).

(c) The scale of losses on the Singapore route in 1980-81 (£8.5 million, and possibly higher on the still to be audited figures) is a matter of record (Minutes of Evidence page 42), as is the expected surplus (£2 million on North American operations taking New York and Washington together (Minutes of Evidence page 8)).

Paragraph 9 (b)

(a) British Airways have in the past underestimated the real increase in fuel prices; and the Committee surmise that they have continued to do so in their estimates for the future.

(b) However, real oil prices have recently been declining, and there is no evidence that they

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substantial weaknesses in international oil prices.

(c) The arrangements to pay the Government a share of the airline's accumulated Concorde operating surpluses when the backlog of past deficits has been eliminated do not affect the calculation of Concorde's cost to public funds. These depend upon whether the aircraft is currently earning an operating surplus, or making an operating deficit, which along with other financial flows determines the

will recover in the foreseeable future.

(c) This is, nevertheless, something about which it is right to be cautious; and the proposed wording, while rebutting the Committee's contention, reflects this.

Paragraph 9 (c)

(a) This is a much condensed version of the outcome of some fairly complex argumentation in which the Department considered whether, when calculating the cost of Concorde to public funds, it was conceptually more correct to take Concorde operating results into account in full in the year in which they occurred, or whether current losses should be ignored and accumulated surpluses only taken into account at and when there was a payment to the Government as some possible future date, and then only as to the 80% share going to the Government.

(b) If operating deficits had been forecast for future years, instead of surpluses, the Committee would have undoubtedly contended that these

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airline's total impact on public sector financing for the years in which these surpluses or deficits occurred.

- (d) The Department agree with the Committee that it would be wrong to assume that, even in a recession, skilled men displaced from the Concorde project will be long out of work. The Department's calculations are thus on the basis of an immediate redeployment by the manufacturers of 25% of those made redundant; and an immediate, and cumulatively increasing, rate of job creation which would provide work for those

should be added to the net expenditures on project account to give a total cost to public funds.

Paragraph 9 (d)

- (a) The Committee's observation on reabsorption is fundamentally correct; and it was because the Department had a similar appreciation of the position that their assumptions as to the rate of job creation, as set out at page 108 of the Minutes of Evidence, were relatively optimistic (and a lot more sanguine than the view originally taken by the Department of Employment).
- (b) The Committee's other observation, namely that they do not find some of the other supposed costs of cancellation any better founded, is too imprecise to be capable (or worthy) of comment.

discharged, unskilled as well as skilled.

(e) So far as the PES 1981 contingent items are concerned, the Department told the Committee that the total anticipated effect in reducing net project expenditures is substantial. All but one of the contingent items would represent savings, while the single item of additional expenditure would be relatively small. The estimated saving from fatigue test curtailment alone has since been

Paragraph 9 (e)

- (a) Conclusion v (d), to which paragraph 9 (e) is a reply, contains certain -apparently deliberate- misquotations by the Committee of the Department's written evidence intended to convey the precise opposite of what the Department was getting at, eg the substitution of the perjorative term "contingency" for "contingent"; the statement that the PES items were "unquantifiable" when what the Department said was that they were "impossible at this point in time to quantify with ... any degree of precision"; and the complete disregard of the fact that all but one of the PES contingent items, as listed at pages 109 and 110 of the Minutes of Evidence, represented savings, not potential expenditures.
- (b) To give priority to the reply it has been decided to disregard these observations, and to concentrate on disproving the Committee's main conten-

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estimated at £24 million
(paragraph 5 above).

10. The bases of the Department's calculations have been explained in the evidence to the Committee, and the Department have also shown how the manufacturers' estimates of future expenditures and receipts have been incorporated in the estimates of continuation costs. The Government does not accept that the calculations have been deliberately slanted; on the contrary continued efforts have been made to avoid bias, and no account has been taken of the considerable savings expected from contingent

tion namely that the total effect of the PES contingent items is likely to be to increase the costs of continued financial support for Concorde.

Paragraph 10

- (a) This combines a remainder of the bases on which continuation costs were calculated with a rejection of the Committee's suspicions that the Department has presented deliberately biased evidence. This rejection is couched however, in terms that do not oblige the Government to say, in so many words, that it has every confidence in those who produced the estimates.
- (b) In fact, all six memoranda were submitted to the Department's Ministers for approval before being passed to the Committee. Moreover, a detailed report on the methodology used in the comparisons was submitted to the then Minister for Industry (Mr Adam Butler) when his approval was sought for the Department's memorandum of 24 November 1980 on the relative costs of continuing and cancelling HMG's

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items until these have become sufficiently firm for them to be included in the Department's PES forecasts (as is now the case with the projected fatigue test savings).

contracts with the manufacturers for Concorde in-service support. The attention of his successor was subsequently drawn to the principal new development (that of making assumptions about the rate of job creation), and to its statistical implications, when he was asked to approve the Department's memorandum of 3 March 1981, which updated these calculations.

- (c) The principal positive measure to avoid introducing statistical bias was the inclusion in the net costs of cancellation, as well as in those of continuation, of £15.5 million for compensation receipts for the loss of airframe spares.
- (d) The statement at the end of the paragraph is intended to dispute the Committee's contention that the Department's estimated costs of continuation were biased on the side of optimism. Since the Committee's report was published, the fatigue test savings have become sufficiently firm as to amount and timing for them to be deleted from the list of contingent items and included in the

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Department's PES 1981 proposal; but no other items have yet moved to that position.

Paragraph 11

11. The Committee have quite rightly noted that the figures have been adjusted frequently. But this must be expected with any programme, such as the Concorde programme, which is undergoing rapid change. Wherever adjustments have been made, the reasons have been explained.

- (a) This is a deliberately bland rebuttal of one of the Committee's more unjustifiable complaints.
- (b) In fact, that Committee were advised at the outset that the Department's financial estimates would change to reflect developments in the Concorde programme; and this warning was repeated at intervals throughout their inquiry. The Department's initial warning was contained in the memorandum of 6 October 1980 (pages 45 to 65 of Minutes of Evidence); and the reasons for subsequent adjustments, and the nature of such changes, in the Department's memoranda of 27 January 1981 (pages 69 to 74) and 3 March 1981 (pages 101 to 110).
- (c) Independent consultants, no less than officials, would have found it necessary frequently to adjust their estimates to take account of developments in what is now a fast moving

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12. Against this background, the Government is not convinced of the need to appoint independent consultants as recommended by the Committee, and is satisfied that the present arrangements for gathering information and making assessments will continue to be the best means of producing as informed and accurate an appraisal as possible as a basis for future policy making.

Anglo-French Aspects
(Conclusion ii and Recommendation ix)

13. The Government concurs with the Committee's conclusion that several factors, including

situation, the only difference being that the consultants, adjustments would have ceased when they had made their report.

Paragraph 12

- (a) This paragraph too is smoothly worded, and avoids giving specific reasons for not appointing independent consultants which the Committee could use against the Government if they wished to continue the argument.
- (b) The words "against this background" emphasize, however, that the Government's decision has been taken only after detailed examination, as in paragraphs 8 to 11, of the reasons the Committee themselves adduce for the appointment of consultants.

Paragraph 13

- (a) This is a deliberately low keyed response to the Committee's observation, which covers the

the participation of two sovereign states, make for inherent difficulties. It is clearly difficult to arrive at decisions which involve two Governments and which affect a number of interested parties; but this does not mean that the project is beyond control.

multiplicity of contracts and the number of interested parties, as well as difficulties arising from the participation of two sovereign states.

- (b) In particular, it avoids even hinting at unilateral withdrawal as a possibility, as well as the controversial ground of whether compensation would be payable in that event (paragraph 55 of Report).

- (c) The Committee themselves recognise the difficulty of termination by proposing (Recommendation vii (b)) that this should be agreed between the parties. However, the reply does not draw attention to this, since to do so would impose a constraint on those conducting future Anglo-French negotiations. In this connection the Committee have been informed (letter from Mr Tebbit to Sir Donald Kaberry of 8 June 1981) that the fact that we have been in touch with the French authorities about the two Governments, mutual desire to reduce the net cost to public funds in their respective countries should not be

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taken to imply that we have also discussed with them the second of the Committee's alternatives, that of agreed cancellation.

Paragraph 14

14. The Government will continue to press for the implementation of the equal sharing provisions of the 1952 Agreement, and has invited representatives of the newly appointed French Government to discuss these and other Concorde matters at an early convenient date.

- (a) For similar reasons this paragraph too is low keyed, and avoids detailed comment.
- (b) In practice, the reductions in British project expenditures will go towards preventing existing adverse imbalances on Anglo-French cost sharing from worsening. But the problem remains of securing compensation for previous imbalances; this is likely to persist until means can be found of doing so without the transfer of monies.
- (c) It is intended that, shortly before publication, the Minister for Industry (Mr Tebbit) should write to M Louis Mermaz, Minister of Public Equipment and Transport, enclosing an advance copy of the Government's reply, and renewing his invitation to come to London for discussions. It is unlikely that these could usefully take

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place before October, by which time French attitudes towards the future of the project, like our own, should also have clarified.

Environmental Aspects
(Recommendation x)

15. The answer by the Parliamentary Under Secretary of State for Trade on 11 June (reproduced at Annex A) gave details of revised tracks for British Airways and Air France Concorde to alleviate secondary sonic booms in Britain and France.

Paragraph 15

- (a) The CAA issued a Notice to Airmen (NOTAM) on 4 June giving details of the changes, as agreed by all the parties concerned. These become operative from 9 July.
- (b) Given the widespread constituency interest (including that of at least two Select Committee members), Parliament's attention was drawn to the changes by an arranged written PQ. The summary of the history of the problem placed in the Library of the House at the same time, and copied to the Committee, refuted Committee allegations that discussions had been proceeding in a leisurely fashion since 1978.

Other Committee Observations
(Conclusion i, iii, iv)

16. Information on Concorde

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Paragraph 16

project expenditures and receipts giving details up to 1981 for each of the parties concerned and updating earlier information, was contained in answer to a written Parliamentary Question on [] June 1981 (reproduced at Annex B).

- (a) This paragraph is in confirmation of the indication of the Minister for Industry's letter of 8 June 1981 to the Committee Chairman that such information would be presented to Parliament before publication of the Government's reply, and is directed towards meeting the Committee's complaint (Conclusion i) that they found it impossible to ascertain with precision how much had already been spent and by whom.
- (b) The annual statement to Parliament, made by the PUSS for Industry (Mr Marshall) in answer to an arranged written PQ, covers French as well as British manufacturers expenditures and receipts. It did not, however, include information about expenditures in Government R & D Establishments (intramural costs); nor did it identify (for reasons of commercial confidentiality which are no longer relevant) the expenditures and receipts of individual manufacturers.
- (c) The statement, made in accordance with an undertaking to the PAC in 1977 by the then Accounting Officer that the Department would continue to

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keep Parliament informed of changes in Concorde costs, is based on a joint report to the two Government by British and French Concorde Management Board officials. The 1981 report is now complete and is expected to be submitted shortly.

- (d) In view of the Committee's criticisms it is intended on this occasion that the statement to Parliament should give details of the expenditures and receipts of individual manufacturers, and also of intramural expenditures (at least those incurred by the British Government), to give a UK total. The draft is at Annex B.
- (e) Meanwhile the Department have continued to answer other PQ's seeking information on Concorde costs (most recently in reply to Lord Harris of High Cross on 30 April 1981).

Paragraph 17

- (a) The reply concentrates on that part of Conclusion iii which suggests that Concorde has escaped the rigorous appraisal given to other programmes involving public expenditure. In fact the

17. The Government does not accept that the Concorde project has been immune from rigorous appraisal; it has been under continuing re-assessment over a prolonged period.

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The Committee were informed in the Department's memorandum of 6 October 1980 of the reductions in net expenditures then achieved, and that there had recently been a number of significant changes, particularly relating to airline utilisation, which would increasingly affect the pattern of Concorde finances. The Department's memorandum of 3 March 1981 referred to further savings forecast during the period of the current PES. Details of the most important of these are included at paragraph 5 above, and their effect on the relative costs of continuation and of cancellation at paragraph 6.

reappraisal has been continuous; and, in sharp contrast to the results obtained on a number of other programmes, has led to progressively lower forecasts of net expenditure during the maximum lifetime of the present Parliament and beyond. Thus the PES 1981 forecast expenditures, taking into account the expected savings from the curtailment of fatigue testing, are less than half those of PES 1980 revalued.

- (b) The reply avoids commenting on the Committee's subsidiary opinion that no real attempt has been made within Government to appraise all the costs and benefits of continuing or cancelling. This is true; but only because the costs of continuation and of agreed cancellation have shown so little potential financial benefit from cancellation as to make an overall assessment, taking into account the largely imponderable non-financial aspects, not worth the considerable effort involved. This is even more the case now that the estimated costs of continuation have fallen well below those of cancellation (for detail: see paragraph 6).

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- (c) Also to avoid complicating the argument, the reply ignores the fact that the figure of £123 million quoted by the Committee refers to the PES 1980 calculations, and not those for PES 1981 of which the Committee were also appraised and which give a significantly lower figure.

Paragraph 18

- (a) Conclusion iv contains a number of observations which raise very debatable issues and which cannot be dealt with satisfactorily in a short reply.
- (b) Paragraph 17 therefore concentrates on the most straightforward of these, which arises out of evidence given by British Airways rather than by the Department.

Paragraphs 19, 20 and 21

- (a) These paragraphs replace a concluding paragraph

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18. The Government has taken note of the Committee's suggestion that the prestige value of flying a commercial SST has already been obtained. In considering the case for continued financial support for Concorde, the Government has never considered that this should be allowed to rest on prestige value.

Conclusion

19. For some twenty years Concorde has been a major publicly

financed project, on which substantial - though diminishing - sums continue to be spent. As the Committee have noted, the background to the project is complex; and the Government has therefore particularly welcomed the Committee's interest. The Government regrets that the Committee have felt it necessary to be so critical of the forecasts and necessary assumptions presented in the evidence given to them. It considers that this is unwarranted, and that there is no need to duplicate the the present assessment arrangements by appointing consultants.

in an earlier draft which expressed the Government's regret that the Committee decided against making a sustained effort, directed to achieving the objective of an authoritative assessment of the project as a contribution to the framing of future Government policy. While it is true that the Committee failed to finish their inquiry, and left the pieces to be picked up by independent consultants, this is a point that, if made at all, is best made in the context of a reply to a Parliamentary debate rather than in a White Paper. Coupled with the associated suggestion that the Government would be ready to co-operate in a further Committee inquiry on assumptions as to the Committee's good intentions, this would have left the Committee feeling that their integrity had been questioned, and determined to mount a further inquiry with the intention of producing an even more critical report than the present one.

- (b) The revised paragraphs, while indicating the Government's sharp differences with the Committee's approach, cannot be read as such a challenge. They seem likely therefore to be more successful than the earlier version in achieving the

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20. The Committee recommended that the Government should be ready either to reduce the incidence of Concorde costs on public funds, or to enter into discussions to discontinue operation of the aircraft. The Government is already taking action, as described in this Reply, in line with the Committee's alternative for a reduction of the incidence of Concorde costs to public funds; and action will be continued across a broad front to achieve further reductions in public expenditure, and to increase Concorde project receipts. The extent of the reductions in expenditures now envisaged suggest that this could be a financially more promising course than the Committee's

Government's objective of preventing the Committee from gaining the support of other backbench MP's who, even if they were not particularly concerned with Concorde and the Committee's opinions on it, would feel obliged to back the Committee in challenging the Government, not merely on Concorde but possibly on other matters as well.

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other alternative of agreed
cancellation.

21. The Government also welcomes
the Committee's recommendations for
efforts to secure equal sharing of
costs with France, which will support
its intention of continuing to press
for the implementation of the equal
sharing provisions of the 1962
Anglo-French Agreement. Finally,
the Committee recommended that
discussions on alleviating discussions
on secondary sonic boom arising from
Concorde flights should be brought
to a speedy conclusion; and these
discussions have since been concluded.

EXTRACT FROM HOUSE OF COMMONS OFFICIAL REPORT -
PARLIAMENTARY DEBATES (HANSARD) 15 JUNE 1981

WRITTEN ANSWERS TO QUESTIONS
THURSDAY 11 JUNE 1981

Concorde (Sonic Boom)

Mr. Peter Bottomley asked the Secretary of State for Trade what action is being taken to reduce the disturbance caused by the sonic booms generated by Concorde flights.

Mr. Eyre: The problem of sonic booms associated with Concorde flight has been under continuous investigation since Concorde first entered commercial service in 1976 and a number of changes in operational procedures have already been introduced in an attempt to overcome it. Although these changes have eliminated the primary booms and have greatly reduced the disturbance caused by the secondary or reflected booms, it is evident that any further improvement is unlikely to be obtained unless the point at which Concorde decelerates to subsonic speed is moved further westwards.

If this is to be done without imposing unacceptable fuel penalties on Concorde operations, it needs to be associated with some modification of the route structure and it has been difficult to arrange this in a way that ensures that the high standards of safety observed by our air traffic control services are maintained. I am glad to be able to say that agreement has now been reached on a revised procedure which meets all of these objectives. I hope that this will largely eliminate the disturbance caused by secondary sonic booms.

I have placed in the Library a map showing the new route structure together with a short summary of the history of this problem

CONCORDE FINANCES

DRAFT ARRANGED WRITTEN PQ AND ANSWER

QUESTION :

To ask the Secretary of State for Industry, what is the present total cost of the development, production, and in-service support of the Concorde aircraft; and what is the net Government commitment to production and in-service support expenditure.

ANSWER :

The manufacturers' total development costs in Britain and France to completion of the programme on 31 December 1980 were £1,126 million. The expenditures were divided as follows:-

	<u>£ million</u>	
British Aerospace	312	
Rolls Royce	<u>262</u>	
Total British expenditure	574	
SNIAS	373	
SNECMA	<u>179</u>	
Total French expenditure	<u>552</u>	(6,500 million francs)
Total development costs	<u>1126</u>	

The manufacturers' total production costs to the end of 1979, when the production phase is regarded as having been completed, and their receipts from the sale of aircraft, and from the sale or lease of engines and spares, also to the end of 1979 were as follows:-

British manufacturers (£ million)

	<u>Expenditures</u>	<u>Receipts</u>
British Aerospace	267	84
Rolls Royce	<u>101</u>	<u>63</u>
Totals	<u>368</u>	<u>147</u>

French manufacturers (F million)

	<u>Expenditures</u>	<u>Receipts</u>
SNIAS	2,550	1,023
SNECMA	836	529
Totals	<u>3,386</u>	<u>1,552</u>

All expenditures and receipts from 1 January 1980, other than the residual costs of engine development to completion of the programme on 31 December 1980, are regarded as arising from the support of Concorde aircraft and engines in airline service. The manufacturers' in-service support costs and receipts to the end of 1980, and their estimated costs and receipts during 1981, are as follows:-

British manufacturers (£ million)

	<u>To end of 1980</u>		<u>Estimates for 1981</u>	
	<u>Expenditures</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receipts</u>
British Aerospace	18	3	20	6
Rolls Royce	15	19	20	7
Totals	<u>33</u>	<u>22</u>	<u>40</u>	<u>13</u>

French manufacturers (F million)

SNIAS	102	17	98	20
SNECMA	37	32	41	26
Totals	<u>139</u>	<u>49</u>	<u>139</u>	<u>46</u>

At 31 March 1981, the Government's total net commitment to Concorde production and in-service support expenditures stood at £ 3.3 million, and net expenditures at £ 2.6 million. Additionally, the Government's intramural expenditures at that date, arising mainly from work undertaken in Government Research Establishments, stood at £ 0.77 million.

23 JUN 1981

