



Prime Minister

ms 28/7

2

of JV

2 pps

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP  
Secretary of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

2 Patience,

*I think this will have a real effect on morale in Britain. Support for Concorde must continue. If BA are willing to accept the costs of in-service support until 1 April 1984, negotiations about the details of the new arrangement can continue.*

28 July 1982

THE FUTURE OF CONCORDE

I have seen Norman Lamont's letter of 22 July to you about this subject.

I am in complete agreement with his proposals but would like to make one additional point. Sir John King's letter states that British Airways could not accept the costs of in-service support until 1 April 1984. This may be a tactical position which might be modified when the Government responds. However, it is essential that we clear up the financial position very quickly. If British Airways are willing now to accept the costs of in-service support from 1 April 1983 negotiations about the details of the new arrangement can continue. But, if they are not willing to accept this fundamental point there is no point in further discussions and we should make arrangements to terminate Concorde operations.

I am copying to the recipients of your letter.

*Handwritten signature/initials*

LEON BRITTAN

28/11/1982

1124  
D  
9  
8  
7  
6  
5



bcc: J. Vereker.

## 10 DOWNING STREET

From the Private Secretary

30 July, 1982

Dear John,

The Future of Concorde

The Prime Minister has been following the correspondence commencing with Mr. Lamont's letter of 22 July to Mr. Jenkin about the next steps on Concorde policy.

The Prime Minister accepts that the Government's current negotiating position with British Airways should be that Government support for Concorde will end on 31 March, 1983. She agrees, however, with Lord Cockfield's view, in his letter of 29 July, that until the Government has considered British Airways' reaction to the 1983 deadline, it would be premature to rule out as a fall back position the possibility of a later termination date of Government support. The Prime Minister has minuted that termination of Concorde operations would have a bad effect on morale in Britain.

I am copying this letter to the Private Secretaries to members of E(EA), the Leader of the House, the Parliamentary Under Secretary of State at the Foreign and Commonwealth Office, the Minister of State for Defence Procurement, the Chief Whip, and Sir Robert Armstrong.

Yours sincerely,

Michael Scholer

John Alty, Esq.,  
Department of Industry

CONFIDENTIAL

*Pauline*  
*cc*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 5902  
SWITCHBOARD 01-212 7676

From the  
Minister of State  
Norman Lamont MP

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria St  
London SW1

*Prime Minister* (2)

*Mr Lamont proposes ending the Concorde operating subsidy from 31/3/83,*

*22* July 1982

*notwithstanding that BA are not committed to subsidising these operations from then.*

*Dear Secretary of State*

THE FUTURE OF CONCORDE

E(EA)(82)4th meeting, on 20 April, agreed that the Government's objective should be to secure the earliest possible end to in-service support for Concorde. My meeting with M Fiterman on 6 May paved the way to achieving this objective but colleagues agreed subsequently in correspondence that British Airways should first be given the opportunity to take over the Government's responsibilities for financing in-service support for Concorde.

John King has now replied to this proposal, which Iain Sproat and I put to him, his letter is attached. He says that he is strongly in favour of continuing Concorde operations but his letter records a number of difficulties, particularly that BA could not contemplate taking over in-service support for Concorde until 1 April 1984 at the earliest, and he gives no guarantee that BA would ultimately be prepared to take on in-service support.

I consider that we need to ensure that BA press ahead and reach an early decision on a realistic basis as to whether or not they wish to take on in-service support. Otherwise there is the danger that the negotiations will drag on and ultimately come to a negative conclusion. That would be the worst of all worlds since the taxpayer would have met the heavy costs of keeping Concorde flying in the interim (which could be a period of years) and would then have to foot the bill for cancellation. Moreover the timing would be less favourable both politically and, I imagine, for our privatisation plans for BA.

We must therefore hold to our original decision and terminate Government funding for in-service support for Concorde on 31 March 1983. That decision is still valid and funding beyond that date would erode the savings inherent in it by at least the

CONFIDENTIAL

*ML 622/7*



£13.5 million cost of in-service support in 1983/84. I believe that we would still be giving BA every opportunity to continue Concorde if they were willing to pay the full commercial cost.

The principal contractual and financial uncertainties which could cause negotiations to drag on and will need to be sorted out to enable BA to decide whether or not they wish to take on in-service support are that:

- It has emerged that it would not be feasible for British Airways just to take over HMG's existing contracts with the manufacturers, even appropriately modified. They would also wish to ensure that a limit was placed on the obligations of the British manufacturers to Air France. This would require negotiating new contracts between the British and French manufacturers and between them and Air France and these negotiations would involve both Governments. It seems to me open to doubt whether the French Government would co-operate in such negotiations which would both worsen Air France's contractual terms and facilitate continued operation of Concorde by British Airways when the preferred French option is mutually agreed termination. However John King says that he could resolve these problems in a few months.

- The French Government have indicated that Air France may reduce their services still further which would add to the in-service support costs for British Airways, particularly in the early years.

I also propose that BA would be expected to take on all HMG's present liabilities and that the Government should seek to terminate the present unlimited indemnity (ie the indemnity in respect of any liabilities over and above those for which the manufacturers are assured), to which John King refers, which BA are reluctant to pick up. HMG's Concorde property would be transferred to BA or the manufacturers on a commercial basis. If BA decided to take on in-service support from 1 April 1983 on this basis and their forecast Concorde operating surplusses are realised, the airline should be able to make an acceptable rate of return over a period of four years on the investment required to fund in-service support in 1983/84. Our attitude would therefore be reasonable, defensible and a good commercial test.

The French Government's preference is for termination of Concorde operations by both Air France and British Airways. But the French Minister of Transport would be prepared to countenance continued operations, provided both Air France and British Airways were involved, and the French Government would be prepared to continue financing in-service support for both airlines by the French manufacturers. The French Minister's guiding principle is that we should take joint decisions with no recriminations by either side.



If colleagues agree that we should terminate Government in-service support on 31 March 1983, my next step would be to write to the French Minister, informing him of the Government's decision. We would then need to explain the decision to British Airways and the British manufacturers on the following lines:

- i that any assumption by British Airways of in-service support for Concorde would have to date from 1 April 1983 and be on a fully commercial basis;
- ii on the basis of the forecast Concorde operating surplusses supplied by British Airways for the joint Anglo French studies on the future of Concorde it appeared that BA could make an adequate rate of return over a period of four years on the, relatively modest, investment it would need to make to fund the net cost of in-service support in 1983/84;
- iii the Government would therefore be terminating in-service support for Concorde on 31 March 1983, subject to discussions with the French Government.

If, in the face of this decision by Government, BA decided not to take on in-service support of Concorde; termination of Concorde services by both airlines would be inevitable. I believe that we could explain such a decision to Parliament as follows:

- i on assumptions made by British officials, there was a significant likelihood that, in the event, continuation would be more expensive than cancellation since the costs of in-service support were certain whereas BA's revenues depended on an uncertain market;
- ii studies had shown that continuation was also more expensive than cancellation for the French Government;
- iii against this background, the Government had thought it right to ask BA whether they wished to take on in-service support;
- iv although BA had not ruled out taking on in-service support eventually, they had given no commitment to do so nor had they been prepared to do so on a timescale which would allow the Government to reap the benefits of withdrawal of support;
- v and therefore, the Government would be terminating in-service support from an early date agreed with the French Government.



Accordingly I invite colleagues to agree:

- i that Government funding should stop funding in-service support for Concorde on 31 March 1983;
- ii that I should inform M Fiterman of that decision;
- iii that presentation of our decision to BA, the manufacturers and Parliament should follow the lines I have indicated.

I believe the issues and the way ahead are reasonably clear cut. But if colleagues so indicate in their responses to this letter, no doubt you will convene a meeting of E(EA). I would be grateful for replies by close of play on Wednesday 28 July.

I am copying this letter and attachments to the Prime Minister, the members of E(EA), to John Biffen, Douglas Hurd, Tom Trenchard and Michael Jopling and to Sir Robert Armstrong.

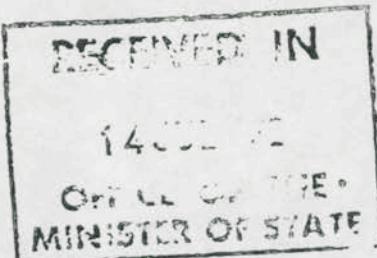
*yours Sincerely*

*John Atty*

NORMAN LAMONT

*(approved by Mr Lamont and signed in his absence)*

*Concorde*  
**British  
airways**



British Airways Head Office

PO Box 10  
Heathrow Airport (London)  
Hounslow TW6 2JA  
Telephone: 01-759 5511  
Telegrams: Britishair

Chairman: Sir John King

12th July 1982

Iain Sproat, Esq., M.P.,  
Parliamentary Under Secretary of State,  
Department of Trade,  
1 Victoria Street,  
London SW1H 0ET.

FOR INFORMATION

*Mr MacTavish  
PS/Saf S  
PS/Mr Butcher  
PS/Secretary  
Mr Croft  
Mr Hudson.*

At first reading, your letter of 1 July suggests that there is an irreconcilable conflict between the Government's criterion for a total withdrawal from the Concorde programme, and British Airways' essential need to protect itself from open-ended future liabilities.

Because I am strongly in favour of continuing Concorde operations, I asked that a further examination of alternative options should be made before closing the door on your proposal for future funding by British Airways. A meeting was held here on 6 July between representatives of British Airways, British Aerospace and Rolls Royce and attended by officials from the Departments of Trade, Industry and Defence.

As a result of that meeting, I can now put to you some alternative proposals about the terms on which British Airways would be willing to continue negotiations with British Aerospace and Rolls Royce to take over the funding of the Concorde support programme.

I am told that the contracts between HMG and the two British manufacturing companies contain a provision (Clause 9) that continues the indemnity cover after the termination of the basic contract. It would seem, therefore, that if agreements could be made by which British Airways assumed responsibility for the net project costs, and HMG terminated its agreements with the French Government and the British manufacturers, you would have achieved the essential objectives of your policy, and we would still have the essential safeguards of the indemnities provided by Clause 9.

Our concern about being put in the position of providing financial support for continuing Air France Concorde operations can probably be met, as you have suggested, by an inter-airline agreement. We would have to negotiate an agreement with Air France, providing that each airline would give the other at least one year's notice of its intention to terminate Concorde services. The presumption would be that a simultaneous cessation of service would then follow, but we would want an escape clause to provide that either airline could continue, if it took on the total net project support costs of both countries.



- 2 -

There is a third issue, which I think I must raise with you before taking the negotiations with the manufacturers further, and this is the starting date for any new agreement. The estimates made by the Department of Industry for the year-by-year net costs for Concorde support show £14.4m for 1983 falling to £8.3m in 1984. The 1983 cost exceeds our estimate of Concorde operating surplus by £7.7m and you will readily understand that I could not agree to a worsening of our results in this way at such a critical stage of the privatisation programme. It is for this reason that I have to say that 1 April 1984 is the earliest date from which I could contemplate the start of new financial arrangements for Concorde support.

If you agree with my proposed solutions to the three foregoing issues, we would proceed immediately with detailed negotiations with British Aerospace and Rolls Royce. In view of the complexity of the agreements to be disentangled and renegotiated, I think we shall need several months.

I must repeat what I said in my previous letter that we cannot be certain of success in these negotiations but it would be my objective to conclude agreements in principle before the end of October.

I hope very much that we shall be able to reach an agreement on these lines.

I am sending copies of this letter to Norman Lamont, Frank McFadzean and Austin Pearce.

John King

22 JUL 1982



From the  
Minister of State  
Norman Lamont MP

The Rt Hon Patrick Jenkin MP  
Secretary of State  
Department of Industry  
Ashdown House  
123 Victoria St  
London  
SW1E 6RB

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 5902  
SWITCHBOARD 01-212 7676

Prime Minister 2

Wh  
3/8

2 August 1982

Dear Patrick

mf

#### THE FUTURE OF CONCORDE

You should now have received all the replies to my letter to you of 22 July.

MES to hand 30/7

You will have seen that the Prime Minister accepts Arthur Cockfield's view that we should tell BA and the manufacturers that the Government's position is that in-service support for Concorde should end on 31 March 1983 but that we should not at this stage rule out a later date for the termination of in-service support. I believe that this provides a satisfactory way forward and should satisfy Malcolm Rifkind's concern since it leaves for later decision the question of what action the Government would take should BA not agree to take on support from that date. It is obviously important in order to sustain our negotiating position that colleagues should keep this decision confidential and stick firmly to the line, in any dealings with BA or the manufacturers that Government funding of in-service support will cease on 31 March 1983.

I also agree with Arthur Cockfield that BA should be encouraged to reach provisional agreement with Air France and to come back in the early autumn (by which I take him to mean the end of October deadline mentioned in John King's letter) with considered proposals. I believe that the former would be welcomed by the French Government. I note what Arthur says about terminating the Government's present unlimited indemnity; we shall need to consider this question further when negotiations have progressed.

The next step will be for Iain Sproat to reply to John King setting out the Government's position on the terms referred to above. His letter would in other respects make the points suggested in my letter of 22 July thereby indicating to BA that the Government considered that it could be in BA's own interest to



5 AUG 1982



take on in-service support from an early date. I shall be writing to the French Minister for Transport to inform him of the basis on which British Airways have been asked to take on in-service support and to seek confirmation of the French Government's position on the Anglo-French aspects of this proposal.

I also propose to inform the Select Committee in confidence that BA have been asked to consider taking on in-service support from the Government on 1 April 1983 and that the Government is awaiting BA's response. Our proposal to BA is, of course, entirely consistent with the Select Committee's own recommendation that in-service support from public funds should be terminated at the earliest practicable date.

I am copying this letter to the Prime Minister, the members of E(EA), to John Biffen, Malcolm Rifkind, Tom Trenchard and Michael Jopling and to Sir Robert Armstrong.

*Yours  
Norman*

NORMAN LAMONT

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

29 July 1982

From the Parliamentary Under Secretary of State

Dear Norman,

FUTURE OF CONCORDE

In your letter of 22 July to Patrick Jenkin you asked for agreement on the next steps on Concorde policy.

We are all, of course, agreed that we must send British Government in-service support for Concorde in the near future in consultation with the French Government. The main issue now, as I see it, is the timing. You may recall that at the meeting of E(EA) on 20 April I and others suggested that the timing of the withdrawal of our support might be linked to British Airways' claim that Concorde would break even after a certain period. British Airways now tell us that they may be prepared to take over responsibility for in-service support to British manufacturers from 1 April 1984. If that position is confirmed but HMG insists on a 1983 deadline, I think many people, abroad as well as at home, will find it very difficult to understand why HMG could not maintain for a further 12 months support which it has been giving at a considerably higher level for many years. The Government would be subjected to very considerable criticism and 1983 will be likely to be an important year for us.

I therefore suggest that British Airways should be told that provided they are prepared to give a firm commitment soon that they will assume HMG's liabilities on 1 April 1984, or any earlier date that might be agreed, we should be prepared to meet them that far. If they are unable to give such a commitment there could be no remaining objection to the proposed date of 1 April 1983.

We shall, of course, need to keep the French Government fully informed of the way our thinking is developing and to take their reaction into account. Their co-operation will be essential if the British Government is to withdraw support while Concorde remains in service and the French Government retains liabilities towards French manufacturers. But the latest discussions between your officials and the French seem to indicate that the French Government may be prepared to accept such a situation. Nevertheless, they will clearly need careful handling and we should give them soon a full account of our thinking.

We must also keep a close watch on the implications of any developments over termination for the cost-sharing problem.

I am copying this letter to the recipients of yours.

Yours ever  
Malcolm

Malcolm Rifkind

Norman Lamont Esq MP  
Minister of State  
Department of Industry

CONFIDENTIAL

29 JUL 1982



FROM: J M HALLIGAN  
DATE: 29 July 1982

PA

MUS 30/7

MR MATHEWS

CONCORDE

Mr Lamont has proposed that HMG funding of Concorde in-service support costs should end by April 1983. If British Airways wish to continue operating Concorde they must accept responsibility for in-service costs from 1 April 1983. If they refuse to do so Concorde will be cancelled provided that this can be agreed with the French. [French officials have said that cancellation is their objective but if British Airways continue services Air France would do so as well].

2 British Airways have said that they wish to continue flying Concorde and are willing to pay the in-service support costs from April 1 1984. However, they could not accept the in-service costs in 1983-84 and seek a continuation of the present arrangement of HMG funding next year.

3 The Chief Secretary has supported Mr Lamont's view as have Mr Younger and Mr Heseltine.

4 British Airways have argued that Concorde is a commercial proposition. Column 1 below sets out the estimated in-service support costs. Column 2 sets out British Airways estimates of the Concorde operating surpluses.

	<u>£M</u>	(Sept'81 prices)
	<u>In-service Support Costs</u>	<u>British Airways Surpluses</u>
1983	14.4	6.7
1984	8.3	8.3
1985	4.5	8.7
1986	3.1	8.7
1987	0.8	8.7
1988	<u>0.1</u>	<u>8.7</u>
TOTAL	<u>45.5</u>	<u>53.9</u>

5 If British Airways believe their own figures they would gain £8.4 million (1981 prices) net between 1983-8 if they accepted liability for Concorde from January 1 1983. In fact, they are only being asked to accept full responsibility from April 1 1983. However, their position is that they will not accept responsibility until Concorde surpluses will finance the in-service

costs and that is not due to happen until 1984. In 1983-84 financial year in-service support costs will be £13.5 million (cash) compared with an estimated operating surplus of £7.1 million - a deficiency of £6.4 million. In 1984-85 estimated costs of £6.7 million compare with estimated surpluses of £8.9 million - a benefit of £2.2 million

6 DOI and Treasury Ministers take the view that if British Airways believe their own figures they should accept full responsibility from April 1 1983. As an investment proposition a deal yielding net income of £8.4 million on expenditure of £45.5 million over 6 years would pass the 5 per cent real return test. Their unwillingness to do so could be for one of two reasons:

either (a) they wish to avoid the initial cost in 1983-84;

or (b) they doubt the size of the surpluses and wish to give themselves an additional margin.

7 If (a) is the reason British Airways is simply trying to improve its financial position at the expense of HMG. As HMG has already supported Concorde to the tune of over £1 billion in constant money the time has come to relieve it of this burden.

8 If (b) is the reason there is doubt as to whether Concorde really is a viable operation. The costs are fairly certain but the surpluses highly uncertain. They depend on traffic growth forecasts which British Airways have not forecast accurately since they started flying Concorde. Previous British Airways forecasts for 1981-82 were that Concorde would make £6 million profit. Provisional figures are of a £2 million surplus and this is likely to be reduced further. It is possible that British Airways have only put these forecasts forward to convince Government to continue Concorde. They were provided on the assumption that the existing arrangements, whereby Concorde in-service support is financed by the Government would continue. Therefore as long as British Airways expected to make any money at all flying Concorde it was in their interests for it to continue. When asked to put their own money on then their reluctance to do so could indicate uncertainty about their achievement.

9 Ministers' proposals to British Airways is therefore designed to establish how much confidence they have in their own figures. If they have insufficient confidence to back Concorde now the probability is that it is not worth spending any further money on and should be cancelled.

*J. M. Halligan.*

J M HALLIGAN





2 RP

*From the Secretary of State*

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

29 July 1982

*Dear Patrick,*

THE FUTURE OF CONCORDE

I have seen a copy of Norman Lamont's letter to you of 22 July.

I accept that we should tell BA and the manufacturers that the Government sticks to its intention that support for Concorde should end at the earliest practicable date, and that our current negotiating position with BA should be that it ends on 31 March 1983. BA must be given a fair opportunity to put forward adequately costed proposals for the continuation of Concorde, if they so wish, on this basis. On the same basis they should be encouraged to reach provisional agreement with Air France on how Concorde might be operated once HMG's support ends, including arrangements for notice of termination as mentioned in Sir John King's letter of 12 July. They should be able to come back to us in the early Autumn with considered proposals.

CONFIDENTIAL



*From the Secretary of State*

CONFIDENTIAL

However I do not accept Norman's proposal that we should rule out now the possibility of a later date for the termination of Government support should this prove to be the only stumbling block to BA's continued operating of Concorde. Until we have considered BA's reaction to our proposed deadline of 31 March 1982, I think it would be premature to rule out, as a fall-back position, the possibility of a later termination date.

I also note what Norman says about seeking to terminate the Government's present unlimited indemnity over Concorde. I accept that this should be our negotiating aim with BA and that we should not at this stage indicate otherwise to them; but presumably termination of the indemnity will require the agreement of the manufacturers, who may not have much incentive to agree. Again, if this proves to be the only sticking point over BA taking over the costs of Concorde support, I think we should not rule out such a possibility prematurely at this stage.

I am copying this letter to the recipients of Norman's.

*John*  
*Arthur*

LORD COCKFIELD



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

dc 5v

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

NBSM

ms 28/7

27 July 1982

*Dear Patrick,*

THE FUTURE OF CONCORDE

This is simply to confirm that I do not dissent from the proposals set out by Norman Lamont in his letter of 22 July and do not, for my interest, see a need for the matter to be taken at a meeting of E(EA).

I am copying this letter to the Prime Minister, the members of E(EA), John Biffen, Douglas Hurd, Tom Trenchard, Norman Lamont and Michael Jopling, and to Sir Robert Armstrong.

*Yours ever,*

*Curry*

28 JUL 1982

