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Prime Minister ②

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*From the
Minister of State*

Norman Lamont MP

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15 February 1983

Iain

THE FUTURE OF CONCORDE

We are now ready to take the next steps on the future of Concorde following receipt of Sir John King's letter of 13 December last which set out the conditions on which the BA Board had concluded BA could take over HMG's role with the UK manufacturers of Concorde.

A question which we need to address immediately is the funding of in-service support in 1983-84. As noted in Leon Brittan's letter to me of 25 November, Ministers have now come to the general view that Concorde should be kept flying. Given that there is a PESC provision, that BA is to remain in the public sector during 1983-84, and that there is insufficient time to negotiate any alternative, I propose that the Government should continue to fund in-service support for Concorde in 1983-84. However, in order to keep up pressure on BA, and to help us in presenting publicly this apparent relaxation on our previous position, I propose that the British manufacturers should be given formal notice at this stage that the Government's contracts for in-service support are being terminated with effect 31 March 1984. We need to settle this question quickly in order that the necessary arrangements can be made with the manufacturers and so that we can announce the decision before the 1983-84 Estimates are published. I attach a draft of the announcement which I propose to make. In order to avoid weakening our position by making this concession I also propose that we should tell BA that we expect to discuss with them the extent to which they would contribute to Concorde in-service support costs in 1983-84.

We also need to explore as quickly as possible the scope for reaching agreement with BA on the conditions on which they would take over HMG's present responsibilities, and which we could justify publicly to the Select Committee and more generally. At the moment there is a wide gap between what we have asked British



Airways to consider (which postulates no continuing HMG financial involvement), and what BA have proposed (which is that they should take over only about two thirds of the Government's present expenditure obligations). However, I believe the conditions set out in Sir John King's letter to be an opening negotiating position rather than BA's final stance, and that there could therefore be scope for reaching agreement. This would, of course, have to take account of the fact that, as a Department, we have no funding for Concorde in-service support beyond 31 March 1984. But there are other items on which the Government could, as necessary, make concessions.

I suggest that the best way forward would be for a small team of officials to have exploratory discussions with BA, initially with the aim of identifying the minimum conditions which BA would expect the Government to meet for relieving HMG of the risks inherent in continuing with the present responsibilities and to induce BA to take on financial risks to which they are not currently subject. If these showed there to be sufficient flexibility in BA's position, the talks could be extended to consider the scope for reaching an agreement which would meet the concerns of both sides and the detailed nature of such agreement.

... In order to get such discussions under way you may like to write to Sir John King along the lines of the draft letter attached. This also covers the 1983-84 arrangements, and makes it clear that the exploratory discussions would be without prejudice to the eventual position, either of HMG or of the BA Board.

I am copying this letter to the Prime Minister, the members of E(EA), John Biffen, Malcolm Rifkind, Geoffrey Pattie, Michael Jopling and Sir Robert Armstrong, to whom I sent copies of Sir John King's letter under cover of my letter of 20 December to Patrick Jenkin.

John

Norman

NORMAN LAMONT



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DRAFT ARRANGED WRITTEN PQ ON CONCORDE

To ask the Secretary of State for Industry, whether he will make a statement about the funding of in-service support for Concorde in the financial year 1983-84

Mr Lamont

To allow for the completion of discussions about the transfer to British Airways of HMG's financial and other responsibilities for Concorde's support, and for the negotiation of contracts between the airline and the manufacturers, the Government has decided to continue to fund in-service support for Concorde beyond 31 March 1983. The Government has, at the same time, given British Aerospace and Rolls-Royce formal notice that, since no funding will be available beyond the end of 1983-84, HMG's contracts for in-service support of Concorde are being terminated with effect from 31 March 1984. The extent to which British Airways would contribute to the cost of in-service support in 1983-84. will be discussed with the airline.

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DRAFT LETTER FROM MR SPROAT TO SIR JOHN KING

FUTURE OF CONCORDE

Thank you for your letter of 13 December. I am grateful for the time and trouble which you and your staff - who subsequently supplied officials with substantial supporting material - have so evidently put into examining the Government's proposals for the future of Concorde, and for your generally constructive approach. This gives us a solid basis on which to consider whether, without too much further delay, we can now come to arrangements which meet the concerns of both sides.

It is against this background that the Government have decided to extend the present arrangements for in-service support for Concorde beyond 31 March 1983. This will allow time for discussions between us to be completed, and for new contracts to be negotiated between the airline and the two British manufacturers. As part of those discussions we shall want to consider what contribution BA would make to meeting the cost of in-service support in 1983-84. These discussions will also take place against the background that the funding originally earmarked for Concorde

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support in 1984-85 and later years has now been switched to other aerospace projects, and that consequently there is no financial provision for Concorde support funding beyond 31 March 1984. Norman Lamont will therefore shortly be writing to the Chairmen of British Aerospace and Rolls-Royce to let them know that formal notice is being given that the Government's contracts with their firms are being terminated with effect from 31 March 1984. This in turn means that new contracts between BA and the manufacturers will need to be in place by 31 December 1983, with an operative date of 1 April 1984, if support for Concorde is to continue as scheduled in the period 1 January to 31 March 1984.

These dates present us with a stringent - but realistic - timescale. In order therefore that we can proceed towards finding acceptable arrangements, I suggest there should be early exploratory discussions between your staff and a small team of officials to look at the scope for reaching an agreement and what its main elements might be. These discussions would, of course, be without prejudice to the eventual position, either of the Government or of the

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BA Board. The Government team would consist of four officials, led as before by Mr B MacTavish of the Department of Industry; and, if you agree that this is the right way forward, I would suggest that Keith Wilkins should establish direct contact with Mr MacTavish to begin the discussions as soon as practicable.

I am copying this letter to Norman Lamont, and to Austin Pearce and Frank McFadzean.

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