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Prime Minister (4) 2/80

MCS 22/2



Foreign and Commonwealth Office

London SW1A 2AH

21 February 1983

From the Parliamentary Under Secretary of State

Dear Mr Lamont,

THE FUTURE OF CONCORDE

Thank you for sending me a copy of your letter of 15 February to Iain Sproat on our Concorde policy. I understand that Iain will not be writing to Sir John King until colleagues have had a chance to comment.

Our concern throughout these discussions has been to find a way of bringing the French to accept what is in the UK interest, while not damaging our overall relationship with them. There is now a significant difference of view between ourselves and the French which we shall have to try to resolve. They want the ultimate decision on whether Concorde should continue to fly to remain a matter for governments, while you wish to leave this to the commercial judgement of British Airways once they assume financial responsibility. If we are to succeed in bringing the French round, we shall have to be careful to consult them when appropriate, and not to take any irrevocable step without explaining to them what we are doing and preferably gaining their consent. The alternative would be a dispute with them over whether the 1962 treaty entitles us to take the action we propose, without their agreement; since we are unlikely to be able to convince them of this we would face the prospect of political and economic penalties if we went ahead regardless.

I foresee two difficult points in the near future, the publication of your inspired PQ and answer, and then the first session that we shall have with the French after the explanatory discussions you propose to hold with BA. Both will need to be carefully handled. I have no objection in general to the way forward you propose. But I have a number of suggestions on tactics and presentation.

First, I think it essential that the Embassy in Paris give the French Government advance warning of the text of your inspired Parliamentary Question and the answer, and at the same time explain where we stand. Ministers here agreed in December that Concorde should be kept flying, and I should like the French to be reminded of that. We could then say that we are embarking on negotiations with BA to transfer responsibility for in-service support costs to the airline, and that (as you told Parliament in December) the French will be consulted on the Anglo/French aspects of any new arrangements.

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Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

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We could then explain that the purpose of the latest PQ, apart from clarifying the 1983/84 financial position, is to concentrate the minds of BA and the manufacturers on reaching agreement with HMG, and that although notice has been given to the manufacturers no decision has been taken on the future of Concorde if the talks with BA were unfortunately to reach an impasse. (Incidentally, I trust I am correct in assuming that if the negotiations with BA fail the contracts could be continued. If not, I would want to think again urgently about whether notice to the manufacturers is advisable, since the French would be justified in accusing us of taking a fundamental step unilaterally in breach of the treaty.) If we do not explain ourselves to the French in this way, there is a real risk that they will conclude from your answer that a decision has already been taken that Concorde will be grounded if the talks with BA are unsuccessful.

I understand Iain Sproat is suggesting the following new formulations at the beginning of the draft answer to the PQ: 'As I announced on 17 December 1982 British Airways has concluded that the airlines can take over the future costs of supporting Concorde in-service, subject to agreement on a number of points. To allow for the completion of discussion on these points, for the negotiation of contracts etc'. I agree with this. I would like to suggest an additional amendment, designed to make the answer compatible with what we shall be saying to the French in advance: after 'manufacturers' in the fifth line, I should like us to add 'further discussion with the French Government'. I should also be happier if the whole of the penultimate sentence could be deleted, as it implies erroneously that we have decided to ground Concorde if the talks with BA fail. I understand that you feel that a public statement of this kind would make a significant difference to the willingness of the manufacturers to conclude negotiations, but I am advised that there is no legal necessity for such notice if the intention is to reach agreement with the other parties, failing which the contracts would be continued.

I agree that exploratory discussions between your officials and BA should be the next step, after we have spoken to the French and the PQ has been published. No doubt you will be considering the Anglo/French problems with the airline. Ideally we should like BA to accept that the decision on whether Concorde would continue to fly should remain a matter for governments, since this is the sticking point for the French. But I recognise that this would not be attractive for BA, who would wish to employ the usual commercial criteria, nor indeed to HMG if we wish to shed ourselves of our responsibilities. The best alternative, if we are to find a solution acceptable to HMG, BA and the French, might be to discover what for BA would be a reasonable period of notice of their intention to terminate operations. We could then open exploratory discussions with the French, and suggest to them that if BA (or indeed Air France) wished to stop flying Concorde the future of the project could be a matter for discussion between governments over a certain fixed period. In practical terms, it is unlikely that Air France would wish to continue to fly Concorde if BA

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wished to stop (and vice versa), but we need to establish with the French a clear procedure to cope with this contingency. It is also important that BA be told that they will have to meet the costs of in-service support for Air France at present levels, unless they can negotiate a reduction. This would be a quid pro quo for the French Government continuing to meet the cost of French manufacturers' support for BA.

I have only one comment on the draft letter from Iain Sproat to Sir John King. I suggest that we should add a new fourth sentence in the penultimate paragraph as follows: 'They (ie the discussions with BA) would need to take account of the interests of other parties concerned, notably the French Government and the manufacturers.' This amendment is intended to provide an opening for discussion of the points mentioned in the previous paragraph.

Finally, we need to bear in mind the implications for our strategy of the cost-sharing dispute. If we do not carry the French with us at all stages we can wave goodbye to any chance of recovering the sum that we think the French owe us. I therefore believe it would be wise to have the Law Officers' opinion on our chances of success if the cost-sharing dispute goes to arbitration before we make our next approach to the French.

I am copying this letter to the recipients of yours.

Yours sincerely

Paul Cairns

PP Malcolm Rikfind
(approved by the Minister
and signed in his absence)

22 FEB 1965

