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FROM: CHIEF SECRETARY
DATE: 3 May 1985

PRIME MINISTER

LEYLAND BUSES: BANGKOK

I have seen Norman Tebbit's ^{115.} minute to you today on the contract on which I have the following comments.

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2 I agree with Norman that an ATP offer of £112 million is not an option. Indeed I am doubtful whether we need to make any offer of aid at this stage. With Leyland clearly in the lead for this business there is still a very good chance that they will win it without aid. Even more so if they can be persuaded to reduce their price so as effectively to match what the Belgians are said to be offering.

3 Regrettable though the Belgian conduct is in resiling from the no - aid agreement - and I hope we will protest to them about it - it is a much more serious matter for us to break the OECD rules - which the Belgians are not doing.

4 We have as you know just managed to agree new tighter rules for the use of mixed credits in OECD and there are good prospects for further improvements. The UK has been very much in the lead in this and our international position would become very difficult if we were now to so clearly go against what we have been fighting for. Moreover it will weaken our position in complaining about the Bosphorus Bridge case in which the Japanese did not break the OECD rules, while at the same time breaking the rules ourselves.

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5 If Norman Tebbit is convinced that doing nothing will put the contract at risk, I think we could overcome the problem by simply matching the Belgian offer. We could tell the Thais formally that if the Belgians do make an offer for part of the contract and the Thais decide that they wish to split the contract which they would have to do to entertain the Belgian offer, then we would match the Belgian offer on £80 million worth of the business. This could be done within the international rules and would leave the rest of the order open to commercial competition in which Leyland would have every prospect of winning.

6 I am copying this minute to Geoffrey Howe, Norman Tebbit and Timothy Raison.

PRS
for PETER REES

[Approved by the Chief Secretary]

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