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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

31 July 1986

Dear Tim,

AIRBUS A330/A340 PROJECTS

The Prime Minister has seen your Secretary of State's minute (undated) about launch aid for airbus projects. She has commented that we must find out how much support BA's partners already receive from their governments and how much those governments are likely to provide for the new projects, in order to prevent the UK Government being black-mailed. The Prime Minister would if necessary be willing to contact Chancellor Kohl and Prime Minister Chirac.

I am sending a copy of this letter to Robert Culshaw (Foreign and Commonwealth Office), Alex Allan (HM Treasury), John Howe (Ministry of Defence), Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster) and Michael Stark (Cabinet Office).

David

(DAVID NORGROVE)

Tim Walker, Esq.,
Department of Trade and Industry.

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SECRET



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COMMERCIAL IN CONFIDENCE

MARKET SENSITIVE

PRIME MINISTER

AIRBUS A330/A340 PROJECTS

While British Aerospace has not yet submitted a formal application for launch aid for the airbus projects, there have been informal contact between the company and my Department, and some Press speculation. You should be aware of developments.

2 Sir Austin Pearce and Sir Raymond Lygo have told me that the BAe Board has concluded that its exposure on civil aircraft is already at the maximum they can justify to their shareholders. BAe's estimate their share of these new airbus projects is about £840m. If they took this on their total exposure on civil aircraft would be some £2.5 billion by 1990, out of all proportion to their turnover in this area, with a consequent adverse effect on their financial performance and share price. The problem is not one of raising the necessary finance, but rather of risk. They feel it is simply too great for a private sector company to bear. Although this might be reduced by a collaboration between Airbus Industrie and McDonnell Douglas, BAe consider that the current talks on such collaboration have only a small chance of success.

3 As you know, BAe's partners in France, West Germany and Spain all receive very substantial support from their Governments. BAe have told me that they are not prepared to

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ie £ 3/4 billion.

participate in the A330/A340 projects without at least the 90 per cent launch aid which their German and French partners are confident of obtaining. !

4 The Presidents of Airbus Industrie and the partner companies meet at the end of September when Sir Austin will be pressed to state whether BAe would be able to shoulder its share of A330/A340 development costs. The company considers that, in the absence of this degree of support from the Government, it would have to tell its partners at that stage it had decided to withdraw. This would have far reaching consequences for the projects themselves and for the future of Airbus Industrie itself - indeed, BAe's future as a 20 per cent partner in the consortium would be in doubt.

5 It is not clear at this stage whether this is simply the opening shot in negotiations. Sir Austin has asked his staff to give my Department a preliminary case justifying their negotiations for launch aid on this scale. My officials will then examine this as quickly as possible with Treasury and other Departments. In the meantime, I have told Sir Austin Pearce that a request for 90-100 per cent launch aid would create enormous difficulties for the Government. I have made it clear that the taxpayers' interests are no less pressing than those of BAe's shareholders. I am, however, statutorily bound to consider any application for launch aid and have said I will let the company have a preliminary view before the end of September. The difficult foreign and domestic political issues that would arise if BAe were to withdraw from the A330/A340 projects will also have to be addressed.

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6 I shall report again later this summer to you when BAe's proposals have been examined in more detail. I am copying this minute only to Geoffrey Howe, Nigel Lawson, George Younger, Norman Tebbit and also to Sir Robert Armstrong.

A large, stylized handwritten signature in blue ink, appearing to be 'PC'.

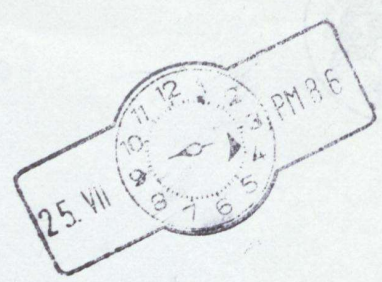
PAUL CHANNON

July 1986

DEPARTMENT OF TRADE AND INDUSTRY

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