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Secretary of State for Trade and Industry

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6 August 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Per Memo

*The response
to your request*

Dear David,

A330/A340 PROJECTS

Thank you for your letter of 31 July conveying the Prime Minister's questions on the amount of Government support given to British Aerospace's partners in Airbus Industrie (AI).

Aerospatiale and Deutsche Airbus both have shares of approximately 38 per cent in AI compared with BAe's 20 per cent, so one would expect the level of support provided by their Governments to be higher in absolute terms than that received by BAe. However, the support has been considerably higher in percentage terms as well.

Taking the Airbus A320 first, the French Government's commitment is to meet 75 per cent of the development costs incurred by Aerospatiale. In Germany, the Government is committed to meeting 90 per cent of Deutsche Airbus's costs. Government launch aid will cover 54 per cent of BAe's costs. In France and the UK, a modest real rate of return is sought on this investment as well as full reimbursement. In Germany, however the Government seeks reimbursement only. Moreover, production of the A320 will be supported in Germany either by Government guarantee or by some other means yet to be devised. There is no support for production in the UK or France.

As regards the Airbus A330/A340 projects, our information is rather different to that expressed in the Chief Secretary's letter; the German Government has decided in principle to meet up to 90% of Deutsche Airbus' development costs when these have been determined provided the projects appear to be commercially viable. The Government's intention is that support for production of the

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A330/A340 should not be given, and, if this is not agreed, Government ~~support of development~~ costs may be slightly below 90 per cent. Deutsche Airbus, like BAe, will be meeting its own pre-launch costs in 1986. The French Government has recently agreed to meet 50 per cent of Aerospatiale's pre-launch costs of about £22 million compared with the 100% funding sought, and no decision will be taken on the level of funding of Aerospatiale's full development costs until a full case for support is presented. However, French officials believe there will be strong pressure on the Government to meet a very high proportion of Aerospatiale's costs, and that the eventual settlement may again be of the order of 75 per cent.

DTI officials understand that CASA of Spain, which has a 4 per cent share in AI, receives virtually 100 per cent funding for its involvement in the A320 and that the Spanish Government sees no problem in funding CASA's participation in the A330/A340 projects on the same basis. However, it has not been possible to confirm this because of the holiday season.

Officials of France, Germany and the UK will be meeting later this month to compare notes on the cost estimates put forward by their industries in respect of the A330/A340 projects with a view to ensuring that these are kept as low as possible and that one country is not played off against another. DTI officials will also be questioning BAe very closely about the basis for the figure of £840 million which the Company has recently put forward as its share of the development costs.

I am copying 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 to Michael Stark (Cabinet Office.)

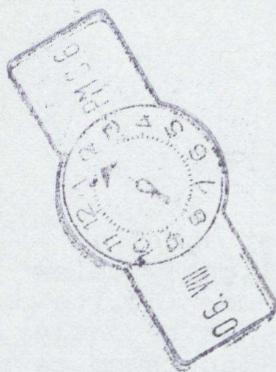
Yours sincerely

C Bradley

CATHERINE BRADLEY
Private Secretary

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