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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 November 1986

Dear Catherine,

AIRBUS A330/A340 PROJECT : PROGRESS REPORT

The Prime Minister has seen your letter to me of 31 October reporting the latest position on British Aerospace's application for launch aid for the A330/A340 project. She has noted that your Secretary of State proposes to circulate a paper to E(A) in January 1987.

I am copying this letter to the Private Secretaries to the Foreign Secretary, Chancellor of the Exchequer, Secretary of State for Defence, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Yours,
David.

(DAVID NORGROVE)

Miss Catherine Bradley,
Department of Trade and Industry.

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DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

Telephone (Direct dialling) 01-215)

GTN 215)

(Switchboard) 01-215 7877

PS / Secretary of State for Trade and Industry

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31 October 1986

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

Prime Minister 2

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To be aware.

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Dear David,

AIRBUS A330/A340 PROJECT : PROGRESS REPORT

As you are aware, my Department received last week British Aerospace's formal application for financial assistance from the Government in launching the A330/A340 project. As expected, they have asked for launch aid of £750 million or about 90 per cent of their total eligible development costs. They have also agreed to examine means of raising finance from the private sector with Government backing in the form of interest support and guarantees. This letter brings you up to date with developments since my Secretary of State's minute to the Prime Minister of 25 July.

Because of a slippage in Airbus Industrie's (AI) timetable, BAe is no longer seeking an early decision from the Government, but Sir Austin Pearce has asked for one in the first quarter of 1987. AI have not yet been able to finalize the technical definitions of the A330/A340 or to make enough progress in marketing the aircraft to airlines to justify a request for early decisions by Government. The position of the French and German Governments on support for their industries participation has not changed since I wrote to you on 6 August. The Prime Minister has, of course, exchanged views with Chancellor Kohl and Prime Minister Chirac on this matter in recent months.

Discussions between AI and McDonnell Douglas about possible collaboration on the A330/A340 ended in September because of the adherence of the parties to the A340 and the competing MD11 respectively. AI considers that further discussions at this stage

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would be counter-productive to their marketing efforts on A330/A340, and Ministers from the UK, France, Germany and Spain, at a meeting during the Farnborough Airshow under Mr Pattie's chairmanship, did not dissent from this.

BAe's request obviously poses significant difficulties. On their present figures expenditure of some £400m might fall in the PES period, and BAe envisage broadly the same level of return to the Government from levies that was agreed for the A320. The application will now be examined in detail by DTI officials, in consultation with the Treasury and the Ministry of Defence, and also with Morgan Grenfell who will advise on possible methods of raising private sector finance for the project. Following this appraisal, my Secretary of State then proposes to circulate a paper to E(A) in January 1987. If Ministers collectively decide that some support should be given, a tough negotiation of the amount and terms would follow, with a view to reaching final agreement with BAe by February or March.

The Chief Secretary has said that he would only countenance Government support for the A330/A340 on the basis of the maximum off-setting savings from agreed DTI programmes. My Secretary of State understands and shares his concern about public expenditure totals. However he has told the Chief Secretary that there is no practical possibility of finding the costs from the existing DTI programme and that Ministers collectively would have to consider the case. It is at Treasury's insistence that there is no provision at all for new launch aid support in DTI's PES base line. If the project is to be supported new money will therefore have to be found.

British Aerospace have agreed that an acrimonious public debate about the prospects for launch aid would serve no useful purpose. However, there is bound to be considerable interest in Parliament and the Press until the issue is settled. We shall take the line that the launch aid application has been received, and that a detailed appraisal of it has been put in hand.

I am copying this letter to the Private Secretaries to the Foreign Secretary, Chancellor of the Exchequer, Secretary of State for Defence, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Yours sincerely

C Bradley

CATHERINE BRADLEY
Private Secretary

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