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copy no 1 of 7

cc to Enigma
B4P.

PRIME MINISTER

AIRBUS AND SPACE

... We shortly need to take decisions on whether to provide launch aid for the new Airbus projects and whether to continue our activity in space. The detailed arguments are set out for Airbus in the attached paper, and for Space in the papers which E(A) was due to take place on Thursday. I thought it would be helpful to set these two issues in context.

2 Both these decisions will be politically controversial, and will have repercussions in the House of Commons and, at least in the case of Airbus, at the Election. We have to decide on space by the end of March in order to secure the best possible deal for the UK in time for approval at the Ministerial meeting of the European Space Agency (ESA) in June. The same timetable applies to Airbus since the West German Government has already decided in principle to give support and we understand a formal Cabinet decision will be made late in April. The French Government, also sympathetic towards the A330/340, may well also come to a decision very soon.

3 What are the arguments against our participation? It can be fairly said that the sums of money involved are large, that the pay off in both cases is uncertain and a long way off, and that in a difficult public expenditure situation, these are not the right priorities. But I think these will be difficult arguments to run convincingly during an Election.

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SPACE

4 The UK spent £96m in 1985/86 about the same as India or Canada and much less than Japan's £380m or Germany's £215m. Since then virtually all developed countries have decided to increase their space programme and in 1985 the UK endorsed ESA's decision to increase its budget by 70% in real terms by 1990. We also created the British National Space Centre (BNSC), with considerable publicity, to co-ordinate our space effort and prepare a plan to maximise the benefit from our space activity. It calls for additional expenditure to maintain our share in ESA's increased budget and provide a national programme to exploit the results.

5 Our response will receive considerable publicity. If we do not expand our activity, there will be no point in keeping BNSC. We should have to disband it, in a public reversal of policy which would amount effectively to opting out of most future developments in space. For example without proper participation in ESA there would be no chance of developing the new UK launcher, HOTOL, which we could not afford on our own.

6 I agree with the Chief Scientific Adviser's assessment that we have to choose between being in space properly or not at all. Unfortunately the uncertainties are too great to allow a detailed economic justification for a space programme; the benefits are long term and accrue, at least in part, to future users of space facilities rather than existing suppliers. For the same reason there is only little scope for private sector contribution although UK industry does more than most. But I do not believe this necessarily points towards rejecting involvement in such a challenging and exciting technology. Moreover, the satellite

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communication industry demonstrates that economic benefits can be obtained. I believe there are clear political advantages in our continued involvement in space at a level which allows us to participate actively rather than grudgingly. If colleagues cannot support the request set out in the Space Plan itself, I could accept the reduced level suggested by John Fairclough, although even under his proposals we would still be spending by 1990 only two-thirds of what France spent in 1986.

AIRBUS

7 The A320 enjoyed a successful maiden flight last Sunday with the Prince of Wales, M. Chirac and Herr Strauss present. It has secured over 430 orders and options; and we expect to achieve over the first 600 sales the 7% monetary rate of return agreed with BAe in 1984. You will recall that Kohl first raised the new Airbus project with you at an Anglo-German Summit a year ago. We now have to decide whether the UK should have a continuing role in what is seen as a very successful major collaborative venture in aerospace.

8 I have no doubt that BAe will not participate without considerable Government support even if less than that offered to their collaborators. The French and Germans will offer up to 100% support in grants and guarantees. I am determined we should not go this far, but if we do not take part, the Germans and French will be delighted to take up our share. Is that in our own interests either on industrial grounds or in wider European terms? There would be no chance of returning to the project at a later stage; withdrawal means that some BAe plants might close and British component suppliers would also lose business. A decision now not to

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offer BAe some financial support with the prospect of a real return to Government would not be understood by our supporters. Some 70 of our Members with marginal seats have constituency interests in aerospace and we can expect fierce lobbying from BAe.

FUNDING

9 I recognise that these two programmes involve significant public expenditure and that the request comes at a difficult time, although for Airbus, the Government should make a real return over the life time of the project. The sums involved are far too large to be borne by my budget which has, rightly, been reduced by half since we took office. Treasury rules have not allowed me to make any forward provision for launch aid for known but unapproved projects. As for space, I already give this sector high priority within my own resources and it is taking an increasing share of my R&D budget. The Chief Scientific Adviser suggests that Ministers should look to the R&D expenditure of the Ministry of Defence, the Department of Energy and Ministry of Agriculture as potential sources of funding. We have agreed to reduce defence related R&D. If no provision can be made from the Contingency Reserve to deal with these proposals, I would, as Chairman of E(RD), endorse such a move.

RECOMMENDATION

10 I would welcome my colleagues views on:

- i authorising the opening of negotiations with BAe for launch aid of up to 50% of the development of the
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A330/340 Airbus projects. (I would envisage an "opening bid" of 40 per cent);

- ii endorsing a higher level of expenditure on space, at least at the level recommended by John Fairclough;
- iii providing the necessary additional expenditure from new money or, failing that, from a mixture of new money and any possible reallocation of funds;
and
- iv submitting appropriate papers to E(A).

11 I am copying this minute to the Lord President of the Council, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Chief Secretary and to Brian Unwin.

P.C.

PAUL CHANNON

24 February 1987

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