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FROM: CHIEF SECRETARY
DATE: 25 February 1987

PRIME MINISTER

AIRBUS LAUNCH AID AND SPACE

We will be discussing both these subjects under your chairmanship tomorrow. I need hardly emphasise what massive additional expenditure bids are involved. In the case of launch aid, British Aerospace are seeking £750 million, nearly half of it in the PES period; and Rolls-Royce are also asking for an additional £75 million. The National Space Centre are seeking to more than double their budget, with more than £300 million extra in the PES period. Both of these bids are in the aerospace sector which is already a disproportionate consumer of public funds (see Table C of the Cabinet Office paper, E(A)(87) 6). And, as the same paper reminds us, other large expenditure bids are in the wings. The problems posed for public expenditure control are therefore self-evident.

Airbus launch aid

2 When we look separately at these two bids, the position is very different. I recognise that there are arguments for continued UK participation in Airbus and therefore for paying some of BAe's development costs for the A330/340. But there are strong grounds for thinking that we should be able to keep our contribution down to relatively small sums. BAe is a private sector company with a healthy balance sheet (and the same will apply to RR after privatisation). It is in a much better position financially than either Aerospatiale or MBB and therefore needs much less funding from Government. The company would in my view be very reluctant to pull out of Airbus projects whether or not we assist them: they have a lot to gain by remaining a partner. With these considerations in mind I would favour striking an extremely tough bargain. There is a strong case for negotiating from a lower starting point than Paul Channon's paper suggests. Certainly I would take the 40 per cent figure suggested not as an opening bid but as the maximum we are prepared to contribute.

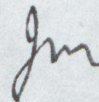
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Space

3 The arguments here are very different. It is not just a question of a very large expenditure bid. There is far more doubt about the value of any addition to the space budget. None of the Departments sponsoring the Space Centre are prepared to give it other than a low priority in relation to their current programmes. Moreover doubling the space programme will dip heavily into the already shallow pool of highly skilled manpower. There will inevitably be a diversion of resources from work of higher value. The result could be that even without looking for public expenditure offsets there will be a noticable weakening of performance, for example, in the defence field - as Mr Fairclough points out, many of the principal beneficiaries of the space programme are defence contractors.

4 All this points strongly to my mind to avoiding any significant increase in space expenditure. Indeed given the concerns I have expressed about relative priorities and the effect of diverting resources from more economically productive areas, I would myself see attractions in following Mr Fairclough's logic and withdrawing from our current level of participation.

5 I am copying this minute to Willie Whitelaw, Nigel Lawson, Paul Channon and Norman Tebbit.



JOHN MacGREGOR