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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

26 February 1987

Dear Michael,

AIRBUS

The Prime Minister this morning held a meeting to discuss launch aid for the Airbus A330 and A340 on the basis of your Secretary of State's minute of 24 February. There were present your Secretary of State, the Lord President, Chancellor of the Exchequer, Chief Secretary, Mr Brian Unwin, Cabinet Office and Mr George Guise, No.10 Policy Unit.

Your Secretary of State said the decision on launch aid was likely to be very controversial. It would be needed not much later than the beginning of April. Aerospatiale and MBB would effectively be given 100 per cent launch aid, either directly or through guarantees. British Aerospace would only remain in the programme if they were given some launch aid. The Board was split on whether BAe should remain in the civil aerospace business, with the non-executive directors arguing that the company should withdraw. This was not however the view of Sir Raymond Lygo.

The Chief Secretary referred to a number of pressures for higher public expenditure, many of them in the area of industry and research. BAe had a healthy balance sheet and would face costs of around £150m. if it were to withdraw from civil aerospace. There were also spin-offs for the rest of the business. On this basis it should be possible to confine Government launch aid to no more than 40 per cent of BAe's total share. The method of giving launch aid could be resolved separately. On balance it seemed better for the Government to reach a decision quickly, rather than late, in order to try to influence the decisions to be taken by France and Germany.

After discussion it was agreed that the Government should seek to move to an early decision. However it seemed most unlikely that BAe would settle for 40 per cent launch aid, whereas 50 per cent might be negotiable. (Earlier launch aid for Airbus had been set at some 54 per cent). The Government's opening offer should be set at 35 per cent

which might be expressed as, say, £300m. if your Secretary of State thought that would be preferable. Your Secretary of State would need to make it clear in discussion that he had no formal approval from Cabinet for his offer. He would not wish to commit to 50 per cent without further reference to colleagues. A paper should be brought to a Cabinet Committee when an agreement with BAe was in sight. The manner in which launch aid would be given should be discussed with the Treasury.

I am copying this letter to Joan MacNaughton (Lord President's Office), Alex Allan (HM Treasury), Jill Rutter (Chief Secretary's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Brian Unwin (Cabinet Office).

Yours,

David.

David Norgrove

Michael Gilbertson Esq
Department of Trade and Industry.



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From the Private Secretary

Prime Minister

Mr. Tebbit telephoned to
say that he is unwell &
will not be able to
make Cabinet, or the meeting
on Space & Airbus. On
the latter his views are:

(a) he is more sympathetic
to the Airbus, provided costs
can be kept within reasonable
limits and outright subsidies

avoided.

(b) he is very much
less sympathetic to
expenditure on space, and
would not support
anything on the scale
proposed.

CDP