



cc Bt & return

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PRIME MINISTER

*Seen by the Prime Minister
11/3.*

JRW

AIRBUS A330/340

As agreed at your meeting on 26 February, I have made a conditional offer of £300m launch aid to British Aerospace. This compared with their request for £750m out of their total estimated exposure on development and production of the aircraft of £1,120m.

2 Unfortunately, the British Aerospace Board has made clear its view that the amount proposed is unacceptable, and that BAe could not participate in the projects on that basis. As I said when we met, their main argument is that as a PLC they cannot responsibly accept the level of risk involved. They also point to the substantially greater support expected to be offered to their partners by the French and German Governments.

3 In BAe's view, the timing is now critical. They are required to attend a meeting on Friday of the Supervisory Board of Airbus Industrie, at which resolutions to launch the projects will be tabled. Even though neither the French nor German Governments have yet concluded firm launch aid arrangements with their companies, BAe believe their partners will be sufficiently confident of their position to go ahead. Sir Austin Pearce, however, is clear that he could only responsibly take a similar position if he was reasonably confident of reaching agreement with the Government.

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4 I made clear to him that there was no possibility whatever of the Government accepting BAe's demand for £750m. After reflection, Sir Austin has come back to me today and said he believes his Board might be prepared to go ahead on launch aid of £600m (implying that BAe take the risk on the remaining £520m of estimated development and production finance required).

5 In return I have indicated, within the terms of our discussion on 26 February, that the Government could offer £400m. The present position is that the BAe Board is considering that position and I have undertaken to consider theirs.

NEXT STEPS

6 I believe BAe may be right that their partners will be prepared to give the go ahead on 13 March even though they have not reached firm launch aid arrangements with their Governments. In these circumstances I accept that it would be desirable to put BAe into a position where, whatever qualification they may necessarily have to put on their position, they can be reasonably confident that an agreement will be reached with the Government enabling the company subsequently to confirm agreement to the launch of the projects.

7 I do not believe an offer of £420m (the maximum discussed at your meeting on 24 February) will secure agreement. But I would suggest that in further discussion with the company you should authorize me to go up to £500m, subject to confirmation by colleagues, on the understanding that I make clear to BAe that we would go no further.

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8 £500m (representing some 59 per cent of BAe's estimated development costs) is in fact within the range judged by our merchant bank advisers (Morgan Grenfell) to be justifiable. While I do not necessarily accept in full BAe's assessment of the risks they face, I would agree with them to the extent that it is not in any of our interests to subject this newly privatised company to excessive risk. Moreover even at a £500m level, our launch aid is likely to be substantially less than the support the French and German Governments will give.

CONCLUSION

9 My proposal is that I be authorized to attempt to reach a settlement with BAe before Friday on an offer of £500m, subject to the same conditions as before and to make it clear to BAe that this was as far as we would go.

10 I am copying this letter to Willie Whitelaw, Nigel Lawson, Norman Tebbit, John MacGregor and Sir Robert Armstrong.

P.C.

PAUL CHANNON

10 March 1987

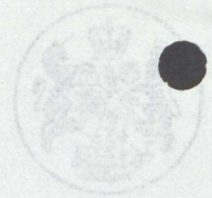
DEPARTMENT OF TRADE AND INDUSTRY

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