CONFIDENTIAL
COMMERCIAL IN CONFIDENCE - MARKET SENSITIVE

cc G. Guise

CHIEF SECRETARY TO THE TREASURY

FROM: **CHIEF SECRETARY**
DATE: 11th **March 1987**

Prime Minister
You discussed with the Chancellor.
JRS 11/3

PRIME MINISTER

with DRN?

AIRBUS A.330/340

I have seen a copy of Paul Channon's minute to you dated 10 March seeking agreement to increasing before Friday the Government's launch aid offer to BAe to £500 million. I question whether we should make any increase to our offer at the present time.

2. There are several reasons why I believe we should stand firm. First, Paul has already moved from the Government's opening offer of £300 million and indicated to the company that we might offer £400 million. As his minute makes clear, the company are considering that position. It makes no sense in terms of negotiating tactics to rush in now with yet a further increase to our offer.

3. Second, I do not see that it is critical to have an agreement with the company before the Airbus Supervisory Board meeting on Friday. The timing of the meeting is not a new factor. The company must have realised that they were unlikely to have reached a firm agreement with the Government before then and must expect to have to play their hand accordingly. In any case it is far from clear how far the French and German companies have got in discussions with their own Governments. I do not know whether it is right, but today's Financial Times reports that they are not yet ready to give a green light.

4. Third, in making his initial offer last Monday, Paul rightly linked this with a number of other conditions, some of which have important financial implications. There is no possibility of getting these agreed before Friday - indeed we shall be on weaker ground in pressing for these conditions if we agree a figure for assistance in advance.

5. The reaction of the company to our opening offer is surely in no way surprising. They are a tough, commercially orientated board, engaged in an important set of negotiations in which they have a lot at stake. We must expect them to look for opportunities to put pressure on us. But having made a reasonable offer, I am sure it is right to leave it with the company.

6. I am copying this minute to Willie Whitelaw, Paul Channon, Norman Tebbit and Sir Robert Armstrong.

JM

JOHN MacGREGOR