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PRIME MINISTER

AIRBUS

The minutes below record the Chief Secretary's comments on the deal Mr. Channon has reached provisionally with British Aerospace, and Mr. Channon's comments in reply. There is no requirement for you to read these at this stage.

The Chief Secretary would be content to provide £450 million, subject to a more even spread of payments and an improved return to the Government. He also wishes to see improvements in other respects, including better monitoring.

Mr. Channon does not believe British Aerospace would be prepared to make the concessions the Chief Secretary wishes to see.

This disagreement will need to be resolved by a meeting at some stage. The immediate question is whether there is a need for agreement to be reached before the end of next week.

The Chancellor has heard from his German Treasury contacts that they are unlikely to reach final decisions until the end of June at the earliest. The Chief Secretary would like to use this time for further negotiation. Mr. Channon believes that the French will undoubtedly want to make the announcement during the Paris Air Show, which starts on 11 June, and that not to do so could damage the commercial prospects of the project. He says the German Cabinet will meet on 3 June and will be pressed by the French to decide, and that the German Treasury's arguments for delay may not win the day.

It again looks as though you will need to hold a meeting next week. I suggest the Lord President, Sir Geoffrey Howe, the Chancellor, Mr. Tebbit, the Chief Secretary and Mr. Channon.

Agree?

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Yes Mr

David Norgrove

7 May 1987

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