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SUBJECT

cc MASTER

cc BG

10 DOWNING STREET

LONDON SW1A 2AA

13 May 1987

From the Private Secretary

Dear Tim,

AIRBUS

The Prime Minister this morning held a meeting to discuss launch aid for the prospective Airbus A330/340 projects, on the basis of your Secretary of State's minute of 1 May, and subsequent correspondence. There were present your Secretary of State, the Lord President, the Foreign Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Mr Unwin (Cabinet Office) and Mr George Guise (No.10 Policy Unit).

Your Secretary of State said that Sir Austin Pearce believed he could secure the agreement of the BAe board to launch aid of £450m., provided this was front end loaded, that there was a target rate of return of 7 per cent and that levies only began after sales of 125 aircraft. The calculations assumed sales of 610 aircraft, which DTI believed would very likely be achieved. The French Government would wish to announce its launch aid at the Paris Air Show which would begin on 11 June. The German Cabinet would be meeting on 3 June, and would come under great pressure from the French to come to a conclusion. The other possible deals described in his minute centring on launch aid of either £420m or £500m were not in his view as attractive as launch aid of £450m., with its related terms and conditions. It was most unlikely that the Government would be able to achieve an improvement on this deal.

The Chief Secretary agreed that the £450m. package was preferable to the others. There were however weaknesses in it. The front end loading would exacerbate the difficulties for public expenditure during the PES period. The National Audit Office had criticised the rate of return expected from expenditure on launch aid for the A320 and the Government should seek for the A330/A340 either to win agreement to levies on the first 125 sales or to secure royalties on sales above 610. The latter would be preferable. Your Secretary of State would need to be satisfied about the provision for recourse in the event of failure by BAe. And finally the provision for monitoring should be improved. The Chancellor of the Exchequer reported Stoltenberg to be adamant that no decision should be taken by the German

Government on 3 June. The German Finance Ministry faced a number of public expenditure bids - including one for space spending - and Stoltenberg wished these to be considered together. This could not take place before the end of June at the earliest. It was possible however that Stoltenberg's view would not prevail.

After further discussion, it was agreed that the Government could not expect to achieve a major improvement on a launch aid offer of £450m. with its associated terms and conditions. To delay an announcement until after the election would risk damage to the prospects for the A330/A340 projects and could also be politically damaging. It would however be entirely reasonable and right for the Government to seek to secure royalties on sales above 610 aircraft. The Prime Minister invited your Secretary of with State the Chief Secretary and the No.10 Policy Unit to decide a proposal to be put to the company today. This proposal should not demand too much; it should be reasonable under all the circumstances. DTI negotiators could point to the criticism made by the National Audit Office of the rate of return on the A320, and say that they would expect Cabinet to agree to the package, provided the royalties were agreed. They should negotiate toughly. But it would be wrong to make royalties on sales beyond 610 aircraft a break point in the negotiations. Your Secretary of State should make an oral report to Cabinet tomorrow and should aim to make an oral statement to the House tomorrow afternoon. A draft of the statement should be circulated to No.10 and the Treasury. It would be important for the Government and BAe to co-ordinate their positions on the announcement.

I am copying this letter to Tony Kuczys (HM Treasury), Jill Rutter (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

David Norgrove

Tim Walker Esq
Department of Trade and Industry.

please P/A on Airbus file.

10 DOWNING STREET

David,

The PM said no to Sir J. Sterling. She is sure that he has excellent advice to give but is sure he could give that advice to a minister prior to the meeting. She also felt it would cause comment + criticism if he attended.

I have passed the above to Jeremy Godfrey in Tim Walkers absence.

Sue
13.5.87.

PRIME MINISTER

AIRBUS

Mr. Tebbit and Mr. Channon have suggested that it might be useful for Sir Jeffrey Sterling to attend your meeting on Airbus tomorrow morning. Jeffrey Sterling has himself telephoned Nigel Wicks to ask whether it would be possible for him to come.

I see the arguments for Sir Jeffrey's attendance, but feel a bit doubtful about it, admirable man though he is. He of course knows all about the Airbus discussions and will have discussed them in the DTI, with perfect propriety. In logic, there is no difference between that and his attendance at a meeting chaired by you. But I wonder how comfortable British Aerospace, or any other company, would feel if they knew that Sir Jeffrey Sterling had reached the position where he was attending Cabinet level discussions, chaired by you, at which decisions central to their futures would be taken.

Do you wish Sir Jeffrey to attend the meeting?

I really don't think we can - especially so near an election. Any advice he has to offer will have been given to Paul Channon

M

Either way, could you please tell the Duty Clerk so that she can let Sir Jeffrey know first thing tomorrow morning?

DRN

DAVID NORGROVE

12 May 1987

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