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COMMERCIAL IN CONFIDENCE

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PRIME MINISTER

Airbus

The Secretary of State for Trade & Industry will seek the Cabinet's approval under "Home Affairs" for the proposal to provide British Aerospace (BAe) with launch aid for the Airbus A330 and A340 projects. He proposes to make an oral statement to Parliament tomorrow afternoon.

2. A Group of Ministers under your chairmanship agreed earlier today that the Government should offer launch aid of £450 million (53.5% of the launch aid costs compared with the 54% given on the A320) on condition:-

(a) it is fully front loaded;

(b) the Government's target rate of return is 7% in money terms (as with the A320);

(c) the Government's return is through fixed sterling levies on sales of more than 610 aircraft on a sliding scale, the first 125 being levy free.

3. Since, however, the 7% rate of return implies a borrowing cost subsidy by the Government, you asked the Trade and Industry Secretary to press BAe to accept some further formula that would give the government a share in any "super profits" on sales above the expected 610.

4. I understand that Mr Channon will report that he has succeeded in negotiating the following further arrangements. The Government will receive £300,000 per aircraft on the next 100 aircraft sold above 610; £600,000 on the second 100 above that

figure; and £900,000 on the third 100. If these totals were reached, the Government's return would be raised to 8%.

5. I understand that Treasury Ministers, though hoping for more, are likely to accept this. If Cabinet are also content, you will want to authorise Mr Channon to make an appropriate statement subject to clearance of its terms with the Chief Secretary, Treasury and the other Ministers most directly concerned.

RA

Robert Armstrong

Cabinet Office
13 May 1987