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PERSONAL

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CDP/wi

3 December 1987

Dear Charles,

AIRBUS

Further to my letter of 30 November you may also be interested to see, also on a personal basis, the attached further progress report.

Yours sincerely,

M J MICHELL

M J Michell

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To: PS/CHANCELLOR OF THE DUCHY

cc PS/Secretary of State
Sir Brian Hayes
Sir Jeffrey Sterling
Mr Williams
Mr Roberts
Mr Macdonald
Mr Hutton EEP
Mr Cooke OT2
Mr Bowder Air 2
Mr Soane EEP
Mr Beetham FCO

From: M J MICHELL
US/Air
Room 515
Kingsgate House
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3 December 1987

AIRBUS

This is a further situation report on the EC/US discussions on civil aircraft trade, following a further meeting with the US on 2 December.

Procedure

2 On the Americans' own initiative, it is not now proposed that Airbus Ministers should join the meeting between Mr Clayton Yeutter (USTR) and EC Commissioner de Clercq on 11 December. Ambassador Mike Smith (USTR) and M. Hugo Paeman (EC) will give a verbal progress report on the negotiations to Mr Yeutter and M. de Clercq (who are meeting in the margins of a more general meeting). Substantive discussion is not expected.

3 Thereafter the Americans are proposing that the negotiations continue at official level towards a full Ministerial meeting early in February. In the US view, this will be the final meeting at which either agreement is reached or discussion is terminated. Whether this will in fact be the case obviously depends on the progress of the negotiations and other factors.

Trade Action

4 We do not have a cast-iron assurance that no US manufacturer will initiate a trade procedure against Airbus during this period. However, we have indications of "best endeavours" from the US on this point and, since the procedure was proposed by them, we are probably alright on this front at least until early February, although an element of risk remains. The position subsequently is of course a different matter.

Substance

5 On the question of disciplines for Governmental support for civil aircraft, the substantial differences between the two sides remain as described in my previous report. However, the 2 December meeting produced quite a useful (though at times



hard-hitting) debate and some limited evidence either of marginal flexibility on some points or of possible "trade-off" positions being formulated.

6 The main feature of the meeting was a new proposal from the USTR that the main emphasis of any agreement should be some kind of pricing mechanism. This was clearly somewhat controversial within the US delegation itself (which as usual is composed of several different agencies).

7 We (France, Germany, UK) deliberately adopted quite a formal position on this. We said it was an interesting suggestion and we would be prepared to consider it if they formulated it more specifically (they agreed to do this in the form of a "non-paper" within the next two weeks). But we made clear:

- i there were considerable practical difficulties since under the present Airbus system the Governments have no locus in pricing, and indeed it is inconsistent with the policies of all three Governments that they should do so
- ii we would need to be totally, and independently, satisfied that there were no adverse legal implications.

8 We also said that if we followed the suggestion of some kind of pricing mechanism, we did not believe our Governments could at the same time accept constraints on their GATT rights to support Airbus if they wished. The US would have to choose which route they wished to pursue (This position might be held to be inconsistent with the 27 October "London mandate" but it seemed the right initial negotiating position to take up. The US did not in fact argue the London mandate point. They said it would be "politically unacceptable" in the US not to have an agreement covering both extra disciplines on support and pricing. We said it was equally unacceptable to us to be negotiating on one area and suddenly to be confronted with new demands).

9 I am myself quite encouraged by this development. In some ways a pricing mechanism of some kind is potentially attractive. Clearly we would need to be absolutely satisfied with the legal position. But this in itself is likely to constrain the substance. In general terms I think it is quite helpful to have another factor introduced in the negotiations. At this stage I think we should continue to make clear that we await any specific proposals the US wishes to make.

Financial Situation

10 The continuing weakness of the dollar has worsened the financial situation of our companies still further. Aerospatiale have now made a formal request to the French Government for additional Airbus support (I do not know for how much). There



is little doubt this will be agreed, although I do not yet know the exact timing. Messerschmitt-Bolkow-Blohm (MBB) are, as previously reported, already in negotiation with the German government for more support to compensate for the adverse effects of the \$/DM exchange movement.

* 11 The BAe finance director has asked to see me next week. I expect him to outline a potentially serious position at BAe. I do not expect him to request further support at this stage. If he does, I shall of course say that would be out of the question.

12 I described in my previous minute the situation under the Airbus guarantees. The French Government are well aware of this, and indeed gratuitously drew it to my attention yesterday.

13 I continue to be concerned at the potentially extremely difficult position towards which the German (and now apparently the French) Governments are leading us collectively in the negotiations with the US. I still believe that the only possible way to avoid an announcement of additional support for Airbus causing a breakdown in the talks (and a subsequent trade action) is for our partner Governments to inform the Americans confidentially of the situation in which they are placed. It may well be over-optimistic to believe that even such advance warning to the US could defuse the situation. At this stage, however, it appears neither German nor French Ministers are ready to consult the US in this way.

M J MICHELL

* Written earlier today before I saw
Sir Brian Hayes' note of his discussion
with Professor Roland Smith.