

SECRET



file VC 3
cc: PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 May 1988

Dear Peter.

British Aerospace and Airbus Industrie

The Prime Minister has seen the Chancellor of the Duchy's minute of 19 May about the current problems of British Aerospace deriving from losses on the Airbus. The Prime Minister agrees that an early meeting is needed and we shall be in touch to set a time next week (possibly on Thursday after Cabinet).

I am copying this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, the Defence Secretary and to Sir Robin Butler.

Yours sincerely,

(CHARLES POWELL)

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster's
Office.

SECRET

CCB/PP

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

19 May 1988

Prime Minister

Agree to a meeting

early next week with

Chancellor, Lord Young, Mr.

Clarke, FCS, Defence Secretary

e Sir Robin Butler?

CDP

19/5

BRITISH AEROSPACE AND AIRBUS INDUSTRIE

at flap

I wrote to you on 27 April setting out the current position on problems relating to Airbus Industrie (AI). I drew attention to the potentially serious implications for British Aerospace (BAe) of the prospective losses on current A320 sales.

2. Since then BAe have become progressively more concerned about their position. You will have seen the coverage in today's Financial Times alleging that they are demanding additional support from the Government. I have met Professor Smith and Sir Raymond Lygo. They denied that they had commented in these terms but are clearly very worried about the implications for their company of the continued losses on A320 sales and the significant working capital requirements for commencement of the A330/A340 development programme.

3. I once again pressed Professor Smith for detailed figures relating the prospective AI losses to the company's overall financial position. He undertook to be in a position to discuss these with me when he comes in for a further meeting on Monday 23 May.

4. BAe's current difficulties raise potentially serious problems for us. They are looking at the possibility of withdrawing from the A330/A340 programme. This would have major financial implications for the company. It would lead to a serious political row with the partner Governments and may also have financial implications for the Government (my paper E(ST)(88)5 refers). The extent of the liabilities for each party is unclear largely because of the lack of clarity in the original undertakings. I have nevertheless asked my officials urgently to discuss the position with BAe to try to clarify our respective assessments of the potential liabilities.

5. We also of course have to consider the expected sale of Rover Group to BAe. If BAe were to run into serious financial difficulties as a result of their Airbus commitments or withdrawal from the A330/A340 then this could raise doubts as to whether they could provide a secure long term future for Rover Group.

6. I think it would be helpful if you were to convene an early meeting to discuss the position. In advance of then I would expect to be able to circulate details of BAe's financial position and further advice as to the potential liabilities for both BAe and the Government.

7. I am copying this minute to Geoffrey Howe, Nigel Lawson, and George Younger, and to Sir Robin Butler.

Peter Smith

KC

(Approved by the Chancellor
and signed in his absence)

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