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R. Minister

CDP

Treasury Chambers, Parliament Street, SW1P 3AG

23/5

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

20th May 1988

Dear Chancellor

BRITISH AEROSPACE AND AIRBUS INDUSTRIE

I have seen your minute of 19 May to the Prime Minister on this subject.

Despite BAe's protestations to the contrary, the story in the "Financial Times" is clearly designed to put pressure on the Government to make further money available for the Airbus programme. I find this both very annoying and worrying, as I am sure you do:

- last year's decision to give BAe £450 million in launch aid for the A330/340 was generous to BAe and represented poor value for taxpayers' money, a return to the Government of well below the minimum 5 per cent real rate of return normally required of public sector investment. You yourself described it, in your minute to the Prime Minister of 28 April, as "rather unwise". BAe now seem to be contemplating additional assistance for both design and development and production. Aside from the problems this might cause with the US, this would further reduce the return to the Exchequer and give totally the wrong signal about our resolve to move firmly away from support for near market, single firm R & D. It would also add further to the already great pressure on the Reserve.
- there is clearly a danger of BAe attempting to exploit their position in relation to the Rover Group (RG) deal. This was well recognised at the time the RG/BAe negotiation took place and it was agreed that there could be no question of HMG agreeing to any concession to BAe on launch aid on account of their acquisition of RG. BAe agreed the terms of the RG deal in the full knowledge of the 1987 launch aid settlement. They must live within the consequences of their decision by, for example, making the necessary reductions in their costs to make their Airbus business fully economic.

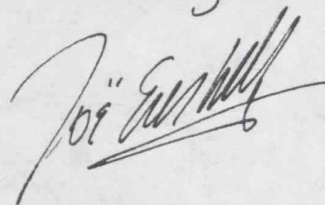
AEROSPACE: Airbus A3

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I note BAe's implied threat of withdrawal from Airbus Industrie. But I believe this needs to be taken with a large pinch of salt since the financial consequence for them in terms of BAe's liability to the other AI partners is likely to be extremely costly to the Company. We must therefore continue to take a tough line with the Company, making it clear that no further launch aid will be made available for A320 or 330-340.

I am copying this note to the Prime Minister, Nigel Lawson, George Younger, and to Sir Geoffrey Howe.

Yours sincerely,



PP JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

