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PRIME MINISTER

BRITISH AEROSPACE AND AIRBUS: MEETING ON 24 MAY

This is the meeting requested by Kenneth Clarke in his minute of 19 May (Flag A). Other relevant papers enclosed are Flag B - note by the Chief Secretary commenting on Kenneth Clarke's minute and Flag C - note by George Guise.

Smith and Lygo of BAe had a meeting with Lord Young and Kenneth Clarke earlier this evening. I have had a short debrief of what transpired, which you may find helpful. Professor Smith started with a long prepared statement stressing the difficulties of BAe's position. Lord Young responded by saying:

- (i) it was most regrettable that there had been so much media coverage of the problems.
- (ii) serious consideration should now be given to withdrawing from the A330/A340 programme.

In subsequent discussion it was agreed that lawyers from both sides should get together to assess what the total costs of withdrawal would be (although they would not discuss where the costs would fall). A first meeting of lawyers is planned for tomorrow.

There was also some discussion of Rover. Here again I am told that Lord Young took a tough line; if there was any attempt to link the Rover deal to problems over Airbus, as far as the Government was concerned all bets were off and we would be prepared to look at other options.

Handling of the Meeting.

DTI ministers are not looking for any detailed decisions from tomorrow's meeting. Their intention is to seek colleagues' views on the broad negotiating line with BAe - in short are

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you content with the tough line they have apparently taken today, and prepared to accept the implications of withdrawal from the A330/A340?

PP PAUL GRAY

*Patricia A. Paskin Duty blank.*

23 May 1988

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