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Treasury Chambers, Parliament Street, SW11

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

6th June 1988

Dear Chancellor,

SUPPORT FOR DOWTY FOR AIRBUS A330/A340 BUSINESS

Thank you for your letter of 27 May seeking my agreement to launch aid to the Dowty Group in support of their bid for the contract for the main landing gear for the Airbus A330/A340.

We spoke briefly about this matter on Friday when you outlined your concerns and I expressed my reservations to aid on grounds of merit and precedence. I have now seen the underlying papers and they seem to me to confirm the unattractive nature of further support. Any additional bid for resources is, of course, deeply unwelcome and should fall to be discussed, alongside other priorities, in the Survey. That aside, however, I should say immediately that I am not persuaded either that Dowty should be eligible for launch aid according to current policy or that the Dowty case as presented merits such support.

As far as overall policy is concerned, in our recent correspondence about launch aid we agreed that this form of support sits oddly with the general policy of moving away from single company projects, and you confirmed in your letter of 2 March your and David Young's strong doubts about the value of launch aid. The present application for support however, appears to extend the scope of launch aid.

No launch aid has been provided to equipment suppliers under Section 1 of the Civil Aviation Act 1982 and I understand that your Department's policy has been to provide launch aid only to airframe and aeroengine manufacturers. (Hansard, 12 April, col 21 refers). Launch aid to Dowty would therefore set a new and most unwelcome precedent which is inconsistent with general policy on industrial support and further enhances the already very privileged status of the civil aviation industry. It would also send unhelpful signals to BAe with whom we are currently in difficult negotiations on the A330/340.

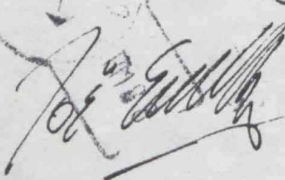
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As far as the merits of the case are concerned, there are several aspects of the case which lead me to turn it down. First, support for 60 per cent of project costs is proposed compared with previous launch aid being generally restricted to 50 per cent. Second, of the total project costs of £25 million, over £9 million relate to the US subcontractor: such indirect support for a US firm is difficult to justify and risk sharing might offer a better solution. Moreover, £4½ million of costs relates to capital expenditure on buildings which is again difficult to justify when launch aid has generally been restricted to design and development costs only plus some jigs and tooling. Lastly, and most importantly, the project is not technologically innovative, does not offer wider benefits to the UK generally and has low additionality in overall economic terms since I understand the Dowty Group sees a number of alternative investment opportunities particularly in its expanding electronics business.

In your letter you suggest that the expected French subsidy of up to 50 per cent to Messier, Dowty's rival for this project, is a rationale for support. As you know, I think that "matching" subsidies in this way tends to be self-perpetuating and therefore counter-productive, particularly among Airbus partner countries. While I recognise that the recent diplomatic exchanges with France over the Rover deal make this slightly difficult, the right answer must surely be to take steps to ensure that the French cut the extent of their support. I therefore think that - as I suggested when we spoke on Friday - we should take the issue up with them in a direct and forceful way. If we do not do so now this problem will re-occur again and again and we should endeavour to stop it.

In conclusion, although I have considered the matter most carefully in view of your comments, my firm view is that launch aid should not be offered to Dowty for the landing gear project and I cannot agree to the additional bid of £11.5 million for 1989-90. Such bids are in any case for the Survey discussions. The precedent of extending the scope of launch aid to equipment manufacturers and the merits of the case for Government support clearly point against the offer of launch aid you propose.

Yours sincerely,



for JOHN MAJOR

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