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Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
Private Secretary
10 Downing Street
London
SW1

9 June 1988

Dear Paul

SUPPORT FOR DOWTY FOR AIRBUS A330/340 BUSINESS

will PC
You will have seen the Chancellor of the Duchy of Lancaster's minute to the Prime Minister of 8 June. The Chief Secretary thought it would be useful if those colleagues to whom he has copied his minute could also see the letter which the Chief Secretary sent to Chancellor of the Duchy on 6 June.

... I attach that letter. I am copying this letter with attachment to Lyn Parker (FCO), Ian Andrews (MOD) and to Trevor Woolley (Cabinet Office) and to Peter Smith (DTI) without attachment.

Yours,
Jin

JILL RUTTER
Private Secretary

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TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

8 June 1988

SUPPORT FOR DOWTY FOR AIRBUS A330/340 BUSINESS

1 The Dowty Group approached my Department in January about the possibility of Government support for their bid to supply the main landing gear for the Airbus A330 and 340. The only form of support that seems feasible is launch aid-type support under the Civil Aviation Act 1982. Because of notification problems with the European Commission we have had to rule out a direct grant to Dowty. What I would like to offer Dowty is a loan of £15 million (paid over the next two years) repayable by means of levies on sales of landing gear sets. The aim would be to secure a 5% real rate of return to the Government. I can find the £3.5 million needed for this year from my existing baseline, the £11.5 million for 1989/90 would constitute an additional bid over and above that in David Young's PES bidding letter of 25 May to John Major.

2 John Major, with whom I have been in correspondence, is not persuaded of the case I have put for such support. In view of the importance I attach to this case and the widespread Parliamentary support Dowty have gained I believe the views of other colleagues should be canvassed before I give Dowty our formal response.

3 I accept that to give launch aid-type support to Dowty fits oddly with the general trend of our industrial policies and my own doubts about the value of launch aid. I would prefer us not to have to do so. However I believe that, if we remain in A330/340 at all, and that seems the most probable outcome at the moment, we will get the worst of all possible worlds if we lose one of the main equipment contracts for the aircraft to the French by allowing Dowty to be pushed out by unmatched government support to their rivals.

4 Dowty's case for support is that they are facing heavily subsidised competition from Messier which is not only part of a state-owned group, but is also receiving strong French government support. Our Embassy in Paris have confirmed that the French government attach considerable importance to Messier's involvement in the A330/340 programme and are willing to finance up to 50% of Messier's development costs in order to ensure success. British Aerospace also told us in confidence

Then can
we not
complain to
the Commission?

that Messier's initial bid was some way below Dowty's and believed Messier were in a position to reduce it quite substantially. Dowty themselves have now put in their final bid to British Aerospace offering a 20% reduction in their price in order to be broadly competitive with Messier. They have made it clear to me that their bid is conditional on receiving financial support from the Government.

5 In my view the importance of Dowty winning this contract is threefold:

- it will bring good long-term business to Dowty and their subcontractors - sustaining and helping to create up to 500 jobs in the UK;
- it will give Dowty a technological lead within Europe for the production of landing gear for the largest types of aircraft previously available only from the United States. Conversely if Messier get the business Dowty are likely to be excluded from this market permanently; and
- this is the largest single contract for the A330/340 a British equipment supplier could win (engines apart), representing approximately 10% of the total equipment content of the aircraft.

6 There is admittedly a risk that other equipment companies would try to follow in Dowty's footsteps. However the negotiations on other equipment contracts for the aircraft are generally at such an advanced stage that very few such applications would be expected and I would turn all of them down.

7 John Major considers that rather than give Dowty any financial support we should take steps to ensure the French cut the extent of their support. I would agree that would be the ideal outcome and it is one of our continuing tasks to put Airbus financing on to a more commercial basis. However at this late stage in the process I believe it would be totally unrealistic to expect the French government to back away from their support for Messier for this contract.

8 Finally there is the question how we can square support for Dowty with the parallel discussions we are having with British Aerospace about their continued participation in the A330/340 programme. The fact is that despite their problems BAe are actively continuing their negotiations with equipment suppliers and expect to decide on the supplier for the landing gear this month. Even if BAe were to pull out of the A330/A340, it is quite possible the programme would continue, with Dowty still facing heavily subsidised competition.

9 In view of the advanced stage of Dowty's negotiations with BAE I would appreciate an early discussion of this issue.

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

Lr

KENNETH CLARKE