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the department for Enterprise

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CCP
Prime Minister
Satisfactory - for now.

PRIME MINISTER

BRITISH AEROSPACE AND AIRBUS INDUSTRIE

ncf CDP 6/2.
You will recall that on 24 May 1988 you held a meeting with the then Chancellor of the Duchy of Lancaster and colleagues to discuss the financial difficulties BAe claimed were being caused by their involvement in Airbus programmes. Since then, we have been looking at the possible options open to BAe and the Government. I am glad now to be able to report that we have reached a satisfactory understanding with BAe that no further financial assistance needs to be offered, though if circumstances move substantially against them they may return to the question.

2. During the course of extended discussions with BAe at Ministerial and official level, I made clear that would take considerable persuading that their problems required a solution involving further Government financial support. BAe were initially hard to pin down on precisely where their problem lay - whether, for example, their request would be met by modification to the terms of launch aid for A330/340, or only by some form of exchange rate guarantee, which would pose even greater problems, both domestically and internationally. Full information from BAe was only available in December. After careful assessment, I told Professor Roland Smith and Sir Raymond Lygo on 24 January that I did not consider that they had made a case for further financial assistance. I also said that it would be more profitable to concentrate on other ways in which the Government could support BAe's investment in Airbus, particularly in introducing commercial disciplines (where the appointment of the new President of Airbus Industrie, Dr Friderichs, and Daimler-Benz's planned acquisition of the German company MBB, are very encouraging developments).

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3. Professor Smith accepted that, in the present economic and commercial circumstances the question of financial assistance should not be pursued, on the understanding, to which I agreed, that BAe could return to the question if circumstances moved substantially against them. He noted that the company did not now intend, as had been previously suggested, to make special provisions for exchange losses in their 1988 accounts.
4. The question of further assistance for BAe has been of some concern to the US Government in the context of the dispute with them over supports for Airbus. The fact we are not currently proposing further aid, but that BAe are not debarred from returning to the question, will therefore need careful handling. Our public line will be that the situation has been fully discussed with BAe and will be kept under review.
5. This seems to me a satisfactory outcome to the discussions with BAe, but I shall continue to keep in touch with the company's prospects and view critically any request by them for launch aid for the proposed stretched version of the A320. I shall also take every opportunity to encourage Airbus Industrie to become more commercial, to reduce the risks that Government may in future come under pressure of one sort or another for further financial support.
6. I am copying this minute to Geoffrey Howe, Nigel Lawson, George Younger and John Major, and to Sir Robin Butler.

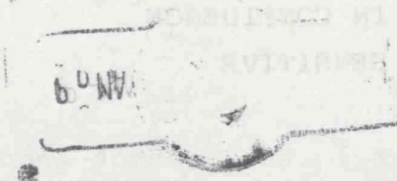
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6 February 1989

Department of Trade and Industry



Euro for: Airbus PT3



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