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Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Peter Walker MBE MP
 Secretary of State for Wales
 Welsh Office
 Gwydyr House
 Whitehall
 London
 SW1A 2ER

Prime Minister²
 To note. The
 Chief Secretary & Mr Walker
 should be able to reach
 agreement at £36m.
 BHP
 17/4

12 April 1990

RSA APPLICATION: BRITISH AIRWAYS

Thank you for your letters of 9 and 11 April. As you know our officials have discussed the case in some detail.

2. Your proposed grant of £36 million is exceptionally large and I have therefore considered the issues very carefully. I appreciate that a large number of jobs would be involved and the prestige of the area would be enhanced. However our starting point should be that BA should make their location decisions on maintenance facilities on commercial grounds, free of government intervention, unless a strong regional and industrial case can be made out. This is particularly important in view of both our stance on reducing EC State Aids and the need to present a neutral stance towards post-privatisation companies

3. Considered in these terms, the case is not wholly convincing. Phase 1 (1259 jobs) will be located in the Cardiff area, whose unemployment rate is barely above the UK average. Even the Nantgarw area has an unemployment rate below the UK Development Area average. While the facility would provide a high class maintenance service for BA, the wider industrial benefits to the UK are not overwhelming.

4. Moreover I understand that the rate of return to BA, while lower in the UK than Singapore, would only justify a grant of £25 million, bearing in mind that the returns on phase 2 and 3 are considerably higher than phase 1. To set against these financial disadvantages, a UK location offers a number of offsetting benefits, principally the strategy value to the company of having such a vital facility in the UK and under BA's sole control, and quicker start up times.

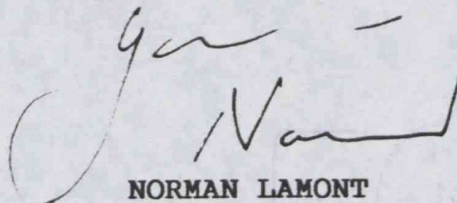
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5. Furthermore, I understand that you are unlikely to be able to fund a £36 million grant within your existing RSA PES provision which we agreed in the Survey. I therefore strongly recommend that you offer a grant of no more than £25 million to the company at this stage.

6. However if you attach such high priority to this project that you are not prepared to risk such an offer, even though it would be among the most substantial ever offered by the Welsh Office, I would very reluctantly be prepared to concede a grant of £36 million. But you will appreciate that particularly in the current expenditure climate my agreement is conditional on your funding the offer within your existing provision. I realise the present public expenditure position is extremely difficult and your RSA provision already appears to be fully stretched, but I would have to insist that any offsetting savings needed should be identified from elsewhere within your industry baseline provision, and that agreed RSA commitment monitoring procedures are applied to avoid overspends. I should be grateful if our officials could agree the details.

7. I am copying this letter to the Prime Minister.


NORMAN LAMONT

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Александр

Рег. № 6.

