

PRIME MINISTER

EC/US AIRBUS DISUTE

hap (21.3)
In my minute of 1 March. I promised to keep you in touch with progress on the Airbus negotiations. Since then, there have been three meetings between the two sides. A certain amount of progress has been made but there is still a gap on substantive issues which may be difficult to bridge by the target date of 31 July for an agreement on principles. CBP 10/6

2 You may recall that a European paper on the possible terms of an agreement was put to the US authorities in March. Following an initial meeting on 28 March, in which the Americans welcomed the European side's constructive start to the negotiations, the US tabled a paper with their proposals. The two papers were subsequently discussed in detail at meetings in April and June.

3 The talks have been conducted in a cordial atmosphere and have been reasonably constructive. Some progress has already been made, including, for example, acceptance by both sides that the agreement will prohibit new support for the production of aircraft. The key issue for both sides concerns the limitations to be placed on development support (or launch aid) for civil aircraft. The Airbus governments have each offered to place an immediate cap on the percentage of development support offered, equivalent to the average support provided by all Airbus governments for the latest Airbus programme, the A330/340, accompanied by a freeze on the terms and conditions under which support would be offered and an agreement to reduce the

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percentage of support over a period of time The current level of support averages around 75% and it has ben made clear to the Americans informally, that some of the Airbus Governments (i.e. France and Germany) would veto a reduction in support to anything less than 50%. The US industry, on the other hand, is looking for something closer to 20%. Because of this gap, the Americans have now chosen to concentrate on the terms and conditions to be applied to government support suggesting that if these could be brought close to commercial terms, and the government risk element reduced to a minimum, then they could be more relaxed about the percentage of support. Again our Airbus partners will almost certainly be unable to accept anything verging on market rates. One possible way forward might be a compromise in which any future support must have a reasonable expectation of covering the cost to governments of borrowing.

4 At the June meeting it was agreed that both sides should table revised papers in time for the next meeting on 12/13 July. After this it is planned to have just one more meeting before the target deadline of 31 July. There is thus little time for the considerable amount of work that will need to go into the negotiations before agreement can be reached. I shall have the opportunity to discuss the negotiations with Commissioner Andriessen and my French, German and Spanish counterparts at a meeting on 19 July. I will, of course, keep you in touch with developments.

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5 I am copying this minute to members of OD(E) and to Sir Robin Butler.

A handwritten signature, likely 'NR', is written in dark ink.

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18 June 1990

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ACROSPACE: Airbus
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