



the department for Enterprise

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9 July 1990

Dear David

Thank you for your letter of 26 June about Dowty Rotol.

I share your regret that the company has decided to set up its new plant in Canada rather than the UK and I can understand that you must be particularly disappointed as the preferred UK site was in South Wales. As you say in your letter, the company had good strategic reasons to go to North America, such as protection against dollar fluctuations and proximity to the North American aircraft manufacturers, such as Boeing. However, there is no escaping the fact that the company was also influenced by the generosity of the Canadian package and a perceived lack of support for aerospace developments and I would like to take this opportunity to bring them to the attention of colleagues.

First the Canadian investment package, as I understand it, is very generous and sets an unfortunate precedent. I believe that you are quite right to say that the UK should not try to match it. Companies with internationally mobile projects become very skilled at playing governments off against each other and the net losers are the governments. Instead, it would be better if we could seek agreements with other countries to limit this type of support, but unfortunately at the present, this is not covered by the GATT codes. This type of action by the Canadians is especially galling at a time when we are trying to reduce state aids for industry in the EC and are also currently engaged in talks with the US (in conjunction with our Airbus partners and the European Commission) on reaching an agreement that would restrict sectoral specific support for development of large civil



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aircraft and rule out support for production altogether. These efforts will be undermined if companies can be lured away from Europe by bribes such as the Canadians are offering. However, if we succeed in negotiating an agreement with the US, our intention is to press for it to be adopted by all the signatories of the GATT Civil Aircraft Agreement (one of which is Canada). If this happens it will be an important step towards disciplining aid in this sector on an international basis.

Second, you raised the issue of support for the UK aerospace industry and the question of launch aid policy. I have also had my ear bent by Dowty and am well aware of their concerns. They have long argued that launch aid should be given to equipment companies, such as theirs, to help them compete fairly with their foreign counterparts. All aerospace companies can apply for launch aid and I am obliged under the 1982 Civil Aviation act to consider their applications. It has, however, been our policy to restrict it to major developments in the airframe aeroengine and helicopter sectors. This whole question was gone into in 1988 when Dowty applied for launch aid to help them develop the landing gear for the A330/340. DTI Ministers at the time had some sympathy for Dowty and were prepared to support their case on the grounds of unfair competition, as their French competitor was being offered launch aid support by the French government. However, as you must know, after careful consideration Ministers collectively decided that Dowty did not have a good case and that we should try to level the playing field by getting other governments to reduce their supports and not by the UK increasing its (indeed Dowty won the contract without our support).

I do not think it would be the right moment to change this policy. As I said earlier, we are working with Leon Brittan to reduce state aids throughout the EC and the aircraft equipment industry is one area where we are trying to persuade the Commission to look closely at the levels of support the other countries give to their industries. It would send all the wrong signals to the Commission and our European partners if we now altered our policy and started offering launch aid to the equipment sector. It could similarly throw doubt on our good intentions so far as our negotiations with the Americans are concerned. These are now at a critical stage since both sides are aiming to reach an initial understanding by the end of this month and I should be reluctant to do anything that might jeopardise a successful outcome.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the other members of EA.



AEROSPACE: Auburn, PA

