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the department for Enterprise

The Rt. Hon. Peter Lilley MP
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Dear Charles

EC/AIRBUS DISPUTE

My Secretary of State wrote to the Prime Minister on 27 July to inform her about recent discussions between the EC and the US on government support for civil aircraft. You replied on 29 July and I am now writing to let you know the latest developments.

The US and the EC had set a target date of 31 July for reaching an agreement. When my Secretary of State wrote there remained a considerable gap between the two sides, in particular on the amount of support that should be allowed for development costs. To avert the threat of a breakdown in the talks, the European side has subsequently offered the US a further reduction in the maximum limit of development support to 45%, repayable entirely on a royalty basis, or to 50%, of which 10% would be repaid on a fixed basis and 40% as royalties. It has been made clear that this is the European bottom line. The Americans have neither accepted nor rejected the latest EC offer but the US Trade Representative has agreed that it should form the basis of further negotiations. The Americans have proposed the resumption of discussions with the EC with a view to reaching final agreement by the end of September.

Meanwhile, the US have deferred the long-threatened complaint to GATT about the exchange rate guarantee scheme operated by the German Government for its aerospace company MBB.





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There are indications that the US industry believe that the proposed level is still too high and a number of difficult issues remain to be resolved. However, for the time being we have avoided a damaging US trade action and have won a further two months in which to negotiate an agreement.

I am sending a copy of this letter to Martin Hatfull, FCO and Sonia Phippard, Cabinet Office.

Yours
Rosalind Cole



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