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the department for Enterprise

Prime Minister

To note.

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CEP

Douglas Hogg QC MP
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19 September 1990

Dear Charles,

DOWTY

Has
You may remember that at the Farnborough Air Show on 3 September the Prime Minister asked Douglas Hogg and Sir Peter Gregson about the circumstances behind Dowty's decision to invest in Canada rather than the UK. This followed a discussion she had had with Tony Thatcher, the Dowty Chief Executive. The Minister was not able to respond fully at the time and so I am writing to set out the background to this case.

Tony Thatcher has long complained about the lack of support HMG gives to its aircraft equipment companies, such as Dowty, when compared to the support their competitors overseas obtain from their Governments. This came to a head in 1988 when Dowty applied for launch aid to help them win the contract for the landing gear for the Airbus A330/340. Their main competitor, a French company, had been offered such support by the French Government. Dowty felt, not unnaturally, that this left them at a competitive disadvantage. Kenneth Clarke, the then Chancellor of the Duchy, wrote to the Prime Minister on 8 June 1988 proposing that Dowty be offered a repayable loan, but after considering his arguments and those of the then Chief Secretary, John Major, in a letter to Kenneth Clarke of 6 June 1988, the Prime Minister took the view that the proposed support would not be justified (Paul Gray's letter of 10 June 1988). Dowty's application was turned down. This created a great deal of bitterness in the company.



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As it turned out Dowty won the contract anyway, but only by entering into a risk-sharing partnership with an American company, CPC, which meant that much of the work was to be done in the US rather than the UK. Unfortunately, that was not the end of the story as CPC's parent company got into financial difficulties and CPC had to pull out of the partnership with Dowty. This left Dowty looking for an alternative source of supply for the parts CPC were to provide and in the end they decided to do it themselves, even though this means having to build a new manufacturing plant.

Dowty had a choice of three sites for the new plant:

- i. Cheltenham, next to their existing facilities;
- ii. South Wales, where the Welsh Office was prepared to offer Regional Selective Assistance; or
- iii. Montreal, where the Canadian and Quebec Governments were prepared to offer inducements.

In the end, despite strenuous negotiations by officials and Ministers in the Welsh Office, Dowty decided on Montreal for a variety of reasons. First and foremost the financial package offered by the Canadians was very generous, far more than the Welsh Office was at liberty, with the agreement of the Treasury, to offer under RSA. Second, it also fitted the company strategy of wanting to expand in North America where it could price its products in dollars, the international aerospace currency, and gain closer proximity to Boeing and other US airframe manufacturers from whom Dowty are hoping to win contracts in the future. I should add that aerospace is an internationally mobile business and many British companies, including Dowty themselves, have close links with the US.

Needless to say the decision was a great disappointment to the Welsh Office and prompted David Hunt to write on 26 June to Nicholas Ridley, copied to the Prime Minister. In his reply of 9 July, also copied to the Prime Minister, Nicholas Ridley restated the Department's policy on this matter, namely, that he regretted the company's decision to go to Canada, but stressing that, rather than try to match the support other



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countries give their companies, the United Kingdom would continue to try to level the playing field by getting other Governments to reduce their support. We are currently looking at what further steps we can take through GATT and the EC to reduce the levels of support that are available.

I am copying this letter to Laurence Conway.

Yours truly,

Kate Philipps

KATE PHILIPPS
PRIVATE SECRETARY

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