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From the  
Minister of State

The Hon Adam Butler MP

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1E 6RB

12 December 1980

*Dear Secretary of State*

Copies to:	
PS/Mr Marshall	
PS/Secretary	
Mr Croft	Dep Sec
Mr McEnery	CNC
Mr Farrow	Air
Miss Marston	FEA
Mr MacTavish	CNC
Mr Stredder	CNC
Mr Novell	CNC
Mr James	CNC
<i>Mr MacTavish (on file)</i>	

CONCORDE

I am seeking the views of colleagues about two forthcoming events concerning the future of Concorde. These are, first, my meeting with the French Minister for Transport, M Hoeffel, in January to discuss inter-governmental work on cost sharing and other Concorde problems; and second, my appearance before the Select Committee on Industry and Trade in either mid-January or in the second half of February to assist them in their inquiry into the operating and associated costs of Concorde.

## 2 General background and financial position

Since my meeting with M Hoeffel's predecessor, Mr Le Theule, we have made further progress in reducing the net Government expenditures charged to the Concorde Vote. The 1980 PES forecasts (incorporated in the March 1980 Public Expenditure White Paper) showed significant savings on the plans which we as a Government had inherited. It is my intention, where possible, to further reduce such expenditure. Regrettably, however, things have not gone so well with British Airways (BA). Reflecting the large increases in fuel prices, BA made a £5.8 million deficit on their Concorde operations in 1979/80; and in 1980/81, despite the suspension of the heavily loss-making Singapore service, they expect to incur a further deficit of some £4 million. They are forecasting a small operating surplus of somewhat under £2 million in 1981/82 and £5½ million in 1982/83. Reductions in BA's and Air France's Concorde services reduce opportunities for the profitable sales of spares and, until production can be adjusted in line with falling demand, increase net project expenditures.

## 3 Inter-governmental cost-sharing

The 1962 Agreement between the British and French Governments, establishing arrangements for the development and production of Concorde, provided that work on and the cost of the programme should



... shared equally. When Mr Le Theule and I last discussed this we decided that the data available did not enable us to decide whether and to what extent there was an imbalance in the share of costs borne by the two Governments. Our officials were asked to examine this further. Despite these studies, summarised in the attached Joint Situation Report, officials have been unable to agree on the assumptions to be used and therefore on whether the imbalances were adverse to the UK, as we believe.

4 I propose to press M Hoeffel hard on the question of rectifying these imbalances, which we estimate to be of the order of £100 million at current prices. However, even if he accepts our case, I cannot see the French Government offering to effect a financial transfer, either immediately or possibly even at any time in the future. In addition to making payments to French manufacturers on project account, the Government are having to meet 70% of Air France's Concorde operating deficits, and 100% of their Concorde investments; and they have their own general financial problems which they will not be anxious to increase in the run up to the May 1981 Presidential elections. My immediate objective in seeking redress would be rather to improve our tactical position should action arising out of the proposed review of the Concorde project (described below) lead to our being at odds with the French; or to ensure arrangements which achieved a balance by the 'end' of the project (1993).

5 The Select Committee Inquiry

... I now expect to appear before the Committee after my meeting with M Hoeffel. The Department of Industry has already submitted two memoranda to the Committee - one (jointly with the Department of Trade) on the support of Concorde in airline service, and a further one on the relative costs of continuing and of cancelling HMG's contracts with the Concorde manufacturers (both attached). The latter gives estimates of the costs of continuation only up to the end of 1981/82. Depending on the timing of the Committee hearings, we should be able to provide a further memorandum in early February giving updated estimates of the costs of continuation during later years. Although these would be based on the PES 1981 forecasts exercise, they would be submitted as being the current best estimates by officials, with no commitment by Ministers.

6 The Committee includes a strong opponent of Concorde in Robin Maxwell-Hyslop, and an equally staunch defender in Russell Kerr. The former may see in the comparison between the estimated costs of agreed cancellation of £56 million and those of continuation to the end of March 1982 (£54 million, with more to come for subsequent years) a case for the immediate withdrawal of the Government's financial support for the project. This is only one of a number of possible options open to the Government; and I would aim, in my answers to make clear that there are many complexities and uncertainties attaching to a collaborative project of this kind, and that these go well beyond what the Committee can hope to cover in the relatively brief and early report they have it in mind to submit. It may suit us if the Committee



recommends a comprehensive Government review of the various options for the future of the project. Changes in the pattern of Concorde operations and other recent events have made such a review timely.

7 Faced with heavier Concorde expenditures than we are, the French Government, also, may well undertake a thorough review, after the Presidential elections. Recent reports suggest a continuing, though no longer unquestioning, French attachment to continuance of Concorde. Having carefully weighed all the evidence we may come to a different conclusion as to where British interests lie. But we should first seek the maximum common ground with our French partners. I shall explore matters with M Hoeffel.

8 I am copying this letter and attachments to other members of E(EA), to Douglas Hurd, Euan Strathcona and to Sir Robert Armstrong. I would appreciate comments by 23 December.

*Yours sincerely,*

*Jonathan Hurd*

*for*  
ADAM BUTLER (Approved by the Minister  
and signed in his absence)