

CONFIDENTIAL

*Bartholomew  
cc to*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902  
SWITCHBOARD 01-212 7676

*From the  
Minister of State*

Norman Lamont MP

*Prime Minister 2*

*To note the proposed*

Iain Sproat Esq MP  
Parliamentary Under Secretary  
of State  
Department of Trade  
1 Victoria St  
London SW1

*Written Answer at May A*

*7* December 1982 *M/S 7/12*

*Dear Iain*

*mt*

THE FUTURE OF CONCORDE

Thank you for your letter of 19 November, with which you enclosed a copy of your reply of the same date to John King. Austin Pearce of British Aerospace and Ralph Robins of Rolls-Royce have also written about the proposed contractual arrangements. As their letters raise points of general interest, some of which bear on our own exchanges, I am circulating copies of them, and of the replies, to colleagues.

*Requested*

Your letter stresses the need to clear our lines with the French Government before any detailed work is done by British Airways in renegotiating contracts. I quite accept this. When once, therefore, the British Airways definitive reply has been received I plan to reply to the points made in M Fiterman's letter which I received on 6 September (translation attached), to draw his attention to the PQ and Answer referred to below, and to propose that the Concorde Management Board of British and French officials should examine and advise the two Governments at an early date on the Anglo-French aspects of the proposed arrangements. A draft of my letter will follow.

Leon Brittan's helpful letter of 25 November indicates that his main concern is that the arrangements for Concorde's future should be settled fairly quickly so that British Airways can concentrate on operating services profitably in the run-up to privatisation. While the developments described above will help achieve an early resolution, his letter confirms that, depending upon the terms of British Airways reply, we could be faced with some difficult and complex decisions. It will inevitably take some little time before we can be sure that we have achieved the right balance, both in principle and presentationally, and are in a position to make a formal announcement and to supplement this by the note which I have promised to let the Select Committee have.

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... If colleagues see no objection I therefore propose to make a holding statement along the lines of the attached draft PQ and Answer shortly after British Airways reply has been received. As you will know, the British Airways Board considered this at their meeting on Friday 3 December; and I understand we may expect Sir John King's letter about a week to ten days from then.

... Leon Brittan's letter makes a number of other points. The question of the indemnities is covered in my enclosed letter to Frank McFadzean. That on the sharing of British Airways Concorde operating surpluses (on which the Prime Minister has since commented) is mainly for your Department. Since, however, this is linked in his letter with the date for the transfer of in-service support costs, I think you will agree that we need to await British Airways definitive proposals on both aspects before taking up a position on it. On this, and on other points in the British Airways reply, we shall need a report from officials. I have therefore asked that work on this be put in hand as soon as the reply is received.

I am copying this letter and attachment to the Prime Minister, the members of E(EA), John Biffen, Malcolm Rifkind, Tom Trenchard, Michael Jopling and Sir Robert Armstrong.

NORMAN LAMONT

A handwritten signature in cursive script, appearing to read 'Norman Lamont', written in dark ink.



TS/1/072

10-13 December

## DRAFT ARRANGED WRITTEN PQ ON CONCORDE

To ask the Secretary of State for Industry, whether British Airways have now made proposals to take over the present Government responsibilities for financing Concorde in-service support, and when he expects a decision on the future arrangements to be announced.

Mr Lamont

Following extensive consultations between the airline and the two main British Concorde manufacturers, the Chairman of British Airways has written to my hon Friend, the Parliamentary Under-Secretary of State for Trade (Mr Sproat), to indicate that British Airways wish to continue operating Concorde, and are therefore prepared to take on the Government's present financial and other responsibilities arising from the British contribution to Concorde's in-service support. The Government welcome this decision. They will now consider, with the interested parties, a date for the transfer of responsibilities and other arrangements; and a statement will be made to the House as soon as possible in the New Year. The French Government are being kept informed, and will be consulted on the Anglo-French aspects of such arrangements.

THE MINISTER OF STATE  
MINISTRY OF TRANSPORT  
246 Boulevard Saint-Germain  
Paris

Mr Norman Lamont  
Minister of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1

Dear Minister

Thank you for your letter of 6 August concerning the future of Concorde, which was forwarded by the British Embassy in Paris.

Your recap of our recent conversations on this matter, and the conclusions which you draw from them, do not appear to be in accordance with the principles which I thought we had agreed in the course of our last few meetings.

What I actually said to you, in view of my ever-present desire to work in close co-operation, is that I was prepared to examine any possibility which would take account of British concerns, in order to arrive at a solution agreeable to both countries on the question of a termination which will have to be contemplated sooner or later. However, I did not say at our last meeting that the French Government wished to proceed immediately to examine possible arrangements for terminating the project. Furthermore, following our meeting, I made the necessary arrangements for financing the 1983 expenditure arising from a continuation of Concorde flights by Air France, including the French share of in-service support for both airlines.

There is also some misunderstanding about the words "termination of the project". During our October 1981 meeting I said that, as far as France was concerned, the ending of in-service support as a result of the withdrawal of one or other of the Governments would mean the end of airline operations. This position is partly based on the 1962 agreement which makes our two Governments jointly

responsible for the overall project including the present spares production phase, and partly on the well-established principle of our co-operation whereby Government services are responsible for the management of the programme while the aircraft are in operation. In such circumstances I cannot accept that the Governments should withdraw and transfer their responsibilities to the airlines.

You yourself expressed doubts on the net operating profits which could be achieved by British Airways in the next few years, and on the airline's capacity to finance in-service support.

It is true that your unilateral decision to reduce the fatigue test programme may contribute to a reduction in the British costs for in-service support, but this alone does not seem sufficient to make profitable operation by British Airways a plausible hypothesis.

I am therefore obliged to ask myself whether the British Government is not in fact contemplating stopping all Concorde flights. If that is the case, we would need to discuss the matter openly so that we could work together, as agreed, towards a mutually acceptable solution. I can confirm that the French Government is still prepared to continue operation of the aircraft, while of course taking all possible steps to reduce costs.

I am at your disposal for any further contact or discussion which you may consider appropriate on this subject, and I remain, etc

(Signature)

Parliament, Dec 8<sup>th</sup>, Concord.

27 DEC 1892

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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
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From the  
Minister of State

Norman Lamont MP

Lord McFadzean of Kelvinside  
Chairman  
Rolls-Royce Ltd  
65 Buckingham Gate  
London SW1E 6AT

PS/Sof S  
PS/Mr Butcher  
PS/Secretary

Mr Croft

Mr Hudson

Mr Streecher

Mr MacTavish  
(on file)

Mr Clarke - CAP.

6 December 1982

*Dear Frank*

THE FUTURE OF CONCORDE

Iain Sproat has passed to me Ralph Robins' letter to him of 24 November, from which I was pleased to learn that substantial agreement has been reached between Rolls-Royce, British Aerospace and British Airways on a minimum level of Olympus 593 operating costs. Since Mr Robins' letter deals with those aspects of in-service support which are the responsibility of the Department of Industry, I shall be replying to the other points he makes.

The letter crossed Iain Sproat's reply of 19 November to John King, copied to yourself, in which he indicated that the Government would greatly prefer that in-service support costs should, as soon as possible, be organised on the basis of contracts direct between British Airways and the manufacturers. This preference has implications for the suggestion in Mr Robins' letter that HMG's indemnity against unplanned and unforeseeable costs should continue.

In this connection, you will recall that, in his letter of 10 August to John King, Iain Sproat said that the Government's position is that, once the new arrangements start, the Government should no longer have any liabilities for the Concorde project, and that the Department of Industry will therefore seek the manufacturers' agreement to the termination of the Government's existing unlimited liabilities.

Direct contracts between the airline and the manufacturers under which British Airways organise and procure in-service support in agreement with the manufacturers and without HMG participation (as has been the case with the recent negotiations for the minimum level of support to which Mr Robins refers) clearly carry with them a presumption that a third party, i.e. the Government, cannot be held financially responsible for costs which derive from a situation in which it is not involved. The proposed new contracts will need to be drafted to reflect this, and in so doing specifically to exonerate the Government from any liability they might otherwise be thought to have under these contracts, or under any contracts which they replace.



The last paragraph of Mr Robins' letter indicates the importance that Rolls-Royce rightly attach to the involvement of French counterparts in discussions on the future of Concorde. The Government appreciate the need for such involvement; and I therefore hope that we shall be able to make a public announcement confirming this shortly after we receive John King's letter. This would in turn enable me to write to the French Minister of Transport, and thus set in train the discussions to which Mr Robins refers.

I am copying this letter to Iain Sproat, and to John King and Austin Pearce.

NORMAN LAMONT

*Yours  
Norman*



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cc DOE PUSS, DOT BM  
 SO PUSS, FCO  
 WO Lord T, MOD  
 DOT  
 CH SEC/HMT  
 D/N  
 D/EMP  
 LPO  
 CWO  
 CO

*Parliament*

10 DOWNING STREET

*From the Private Secretary*

29 November 1982

*Dear John,*

FUTURE OF CONCORDE

The Prime Minister has seen the letter dated 25 November to your Minister from the Chief Secretary to the Treasury about the future of Concorde.

Mrs. Thatcher has commented that if British Airways make profits from their Concorde operation (and she hopes that they will do) they should be allowed to retain those profits.

I am sending a copy of this letter to the other members of E(EA), John Gieve (Chief Secretary's Office, HM Treasury), David Heyhoe (Lord President's Office), George Kidd (Parliamentary Under Secretary of State for Trade's Office), John Macgregor (Parliamentary Under Secretary of State for Foreign and Commonwealth Affairs' Office), Colin Balmer (Lord Trenchard's Office, Ministry of Defence), Murdo Maclean (Government Chief Whip's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely,*

*Michael Scholar*

John Alty, Esq.,  
Department of Industry

CONFIDENTIAL

*HL*



Prime Minister (4)

MES 25/11

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP  
Minister of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

*If they make no loss  
(and I hope they do) let them  
retain those profits*

25 November 1982

*2 Norman,*

FUTURE OF CONCORDE

Thank you for sending me a copy of your letter of November 11 to Iain Sproat, enclosing a draft letter for you to send to Sir John King. I have seen Iain Sproat's reply of November 19. I have no comments on the draft but would like to make a couple of points about Sir John King's letter to Iain Sproat.

Sir John King raises the question of the current arrangements for sharing cumulative profits and suggests that if British Airways accepts the in-service support costs from a mutually agreed date it should retain all future profits. We do not need to settle this now but I would suggest that our attitude will be partially dependant upon the date that British Airways are willing to take over the in-service support costs.

If they are willing to accept them from our proposed date of April 1983 then I think we can be relatively forthcoming. However, if they insist that they cannot accept these costs until April 1984 and the Government ended up paying up to £10 million of support costs in 1983-84 I would be less favourably disposed to BA retaining all future Concorde profits.

On the actual date of takeover I am sure that it is right to continue to take the line with BA that the Government's position is that the transfer of in-service support costs should take place by April 1983. This will keep up the pressure on the airline and the manufacturers to secure maximum savings in these support costs. This will be a benefit to the public sector and a real resource saving to the economy.

You will recall that following the last round of correspondence it was the general view that Concorde should be kept flying. As BA will not now be privatised in the next financial year the question of whether the Government or BA bears the in-service support costs next year is a second order one. The costs will be

incurred within the public sector and so our focus should be on arrangements that cause the least disruption. My main concern now is that the arrangements should be settled fairly quickly so that BA can concentrate on operating Concorde services profitably in the run up to privatisation. I therefore hope that we can negotiate the terms of future support for Concorde and announce a decision quickly after we have BA's final response to the proposals that we put to them.

One final point. Sir John King talks in the ante-penultimate paragraph of his letter about a "reduction in the depth of the indemnity safety net provided by HMG". He is clearly envisaging some Government indemnities continuing after the transfer of in-service support costs to BA. This is unacceptable since our objective is to withdraw completely from responsibility for Concorde and continuing indemnities would be inconsistent with this. As it is unlikely that the unconditional indemnity will ever be called I do not see why the airline and manufacturers need to be so concerned about HMG withdrawing it.

I am copying to the Prime Minister, the members of E(EA), John Biffen, Iain Sproat, Malcolm Rifkind, Tom Trenchard, Michael Jopling and Sir Robert Armstrong.



LEON BRITTAN

Parliament

Concordie

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# ROLLS-ROYCE LIMITED

65 Buckingham Gate, LONDON SW1E 6AT  
Telex: 918091 Telephone: 01-222 9020

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24th November, 1982.

Iain Sproat, Esq., M.P.,  
Parliamentary Under-Secretary of State,  
Department of Trade,  
1 Victoria Street,  
London, SW1H 0ET.

TO Mr Clarke	COPIES TO PS/SOS
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	PS/MR LAMOND PS/SECRETARY MR KNIGHT MR CHUTE MR BLANKS MR HULLCO MR ROBERT MR FORTNA MR MACTAY
PLEASE BY: 7.12.82	

Dear Mr. Sproat,

Since you wrote to Sir John King outlining the Government's proposals for the future of Concorde we have held meetings with British Airways and British Aerospace to discuss our policy, particularly with respect to support costs and contractual arrangements.

One principle which has emerged clearly from these meetings is that all parties believe that the existing contractual arrangements should remain, including the continuation of H.M.G's indemnity against unplanned and unforeseeable costs.

In addition, we have held a series of detailed discussions with British Aerospace to establish the minimum level of Olympus 593 operating costs consistent with British Airways' planned operation with the Concorde aircraft and substantial agreement has now been reached on this matter.

You will be aware that the manufacturers have the same contractual obligations to Air France as to British Airways and that we have a collaboration agreement with the French engine company SNECMA. It will, therefore, be essential that discussions between the U.K. parties and their French counterparts are held in parallel if we are to obtain the agreement of the French to these new proposals.

Yours sincerely,

A handwritten signature in dark ink, reading 'R. H. Robins'.

R.H. ROBINS  
COMMERCIAL DIRECTOR

4/29/11

c.c. Sir John King, Chairman, British Airways  
Sir Austin Pearce, Chairman, British Aerospace.

RHR/SC - 24.11.82.



From the  
Parliamentary Under Secretary of State

PS/SOS  
PS/Secy  
Mr Knowlton  
Mr Croft  
Mr Blanks  
Mr Hudson  
Mr Roberts  
Mr Fortnam  
Mr Mactanish  
Mr George Smith

AP/31/200/82  
✓

DEPARTMENT OF TRADE  
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TELEPHONE DIRECT LINE 01 215 372  
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NBPM

rus 8/12

Norman Lamont Esq MP  
Minister of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
London  
SW1

19 November 1982

Dear Mr Lamont,

FUTURE OF CONCORDE

Thank you for your letter of 11 November.

I have written to Sir John King on the lines that you propose; and I attach a copy of my letter to him.

I should like to add just one point. While I can see that from the financial point of view there are considerable attractions in BA negotiating contracts directly with the manufacturers as you propose, rather than working on the basis of existing contracts, there seems a risk that these arrangements could prove unacceptable to the French. I understand for example that M. Fiterman has already shown some opposition to British Government disengagement. There is a danger therefore of BA's engaging in a considerable amount of detailed work on renegotiating contracts which could prove abortive if the arrangements prove unacceptable to the French.

I realise it may be difficult to get any clearer response from the French than we already have; but I hope you can take every opportunity of probing the French attitude on the future of Concorde to avoid the danger I have described.

I am copying this letter to the recipients of yours.

Yours sincerely,

Mr IAIN SPROAT

(approved by the Minister and signed in his absence)

# British Aerospace

PUBLIC LIMITED COMPANY

Brooklands Road  
Weybridge  
Surrey KT13 0SJ

From the Chairman,  
SIR AUSTIN PEARCE, CBE

Mr. Norman Lamont,  
Minister of State,  
Department of Industry,  
Ashdown House,  
123 Victoria Street,  
London, SW1E 6RB.

FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: 26/11	Copies To Mr MacFarish Mr Butcher Mr Croft Mr Hudson Mr Poyor.
--	---

Telephone: Weybridge (0932) 45522  
Telegrams: Britair Weybridge  
Telex: 27111

18 NOV 1982  
COMMUNICATIONS  
UNIT

16th November, 1982.

*Dear Norman*

Since the Government put forward its proposals concerning the future of Concorde in May, there have been many meetings of all the parties concerned to examine possible contractual arrangements and realistic support cases.

Lord McFadzean joined with me in a policy discussion with Roy Watts on September 1st at which we established complete agreement on the contractual matter. It was our joint view that, if Concorde is to continue, the contractual arrangements would need to remain as-is, at least for some appreciable time. BAe supported this view in the knowledge that not only is the task of changing all contractual relationships extremely complicated and time consuming but also we considered there are certain key items where there is not yet any practical alternative to the Government continuing to carry its present responsibilities.

At the September meeting, we also set the experts to examine jointly means by which on-going support costs could be reduced. In consequence, my people have worked very closely with British Airways over the past two months on the engineering and technical aspects of support and their related costs. I can confirm Sir John King's view in his recent letter to Iain Sproat that we expect shortly to have agreement on minimum cost levels in these areas, conforming with BA's redefined operational objectives.

However, BA have been made aware that there are other significant costs which, whilst not relating to engineering/technical support for in-service operations, nevertheless cover tasks which fall within BAe's present contractual arrangements with HMG. The basis of funding these cost elements will need to be discussed and agreed in the context of British Airways' detailed proposals which, from Sir John's letter of 18th October to the Department of Trade, should be tabled in December.

Yours sincerely,

*T. M.*



cc: Mr. Iain Sproat, Minister of State, Department of Trade.  
Sir John King, Chairman, British Airways.  
Lord McFadzean, Chairman, Rolls-Royce.