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COMMERCIAL IN CONFIDENCE



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Secretary of State for Industry

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30 July 1982

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

AR 3/8.

Dear John

When the Prime Minister spoke to my Secretary of State after the OD meeting she asked about Rolls-Royce's interest in the Brazilian company Motores Rolls-Royce Limitada.

2 Motores Rolls-Royce is a wholly-owned subsidiary of Rolls-Royce Limited, registered in Sao Paulo in 1958. The company provides an overhaul and repair service primarily for Rolls-Royce engines (though it has diversified to provide a service for engines manufactured by other companies) operating in South America. MRR's turnover in 1981 was approximately £6m resulting in a profit of £2.04m on capital employed of £2.6m but the significance of the operation is much larger since without this overhaul and repair facility RR would be at a severe disadvantage with their competitors in making sales to South American airlines. When the Falklands invasion started two civil Spey engines owned by the Argentine airline Austral were at MRR for repair. Immediately after the invasion, on the instructions of RR London, MRR ceased to do business with Argentina and the Austral engines, although completed and ready for transhipment, were kept at MRR.

3 The position over the Brazilian subsidiary caused Rolls some considerable difficulties. They were advised that, while Brazilian law does not specifically make it illegal for a controlling shareholder to decide the countries with which its subsidiary may trade, company law does forbid a shareholder from instructing its subsidiary to take actions which are contrary to its best interests. Since Argentina represents about 25% of Motores Rolls-Royce's business, an instruction not to trade with Argentina could clearly be interpreted as being illegal.

4 Despite these difficulties Rolls did in fact succeed in delaying the return of the engines throughout the hostilities but legal proceedings have now been instituted by Austral and Motores Rolls-Royce have concluded that they now have no alternative but



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to return them. Incidentally it should be noted that the engines are for use in BAC 1-11 civil aircraft and could not be used in any other aircraft. I understand that Austral were charged \$160,000 for the first engine and \$400,000 for the second, of which about 30% would be profit for MRR - some \$168,000 in all.

5 My Secretary of State had emphasised to Lord McFadzean the importance for the UK's national interest of Rolls-Royce taking all possible steps to safeguard the integrity of the UK's policy on the ban of exports to Argentina. He is satisfied that Rolls have done all that could reasonably have been expected of them on that score. Indeed, on a separate, but related, issue, Rolls had been working with the West German shipbuilder Blohm and Voss on frigates for the Argentine Navy. The export of engines for the warships from the UK stopped of course with the revocation of export licences. But in addition Rolls withdrew their technical support personnel at the Blohm and Voss yard thereby leaving themselves open to possible action by the shipbuilder for breach of their contractual obligation to supply personnel.

6 I am copying this letter to Jim Nursaw (Attorney General's Office) and Francis Richards (FCO).

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary



22 AUG 1982

22 23 24 25 26 27 28 29 30 31

Argentina



10 DOWNING STREET

From the Private Secretary

4 August 1982

ROLLS-ROYCE'S INTEREST IN
MOTORES ROLLS-ROYCE LIMITADA

The Prime Minister has noted without
comment your letter of 30 July.

A. J. COLES

David Saunders, Esq.,
Department of Industry.