



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON . SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

G Walden Esq
Private Secretary to the
Foreign Secretary
Foreign and Commonwealth Office
Whitehall
London SW1

4 December 1980

MSM
B
711

Dear George

ROLLS-ROYCE AND AIRBUS

TPM

1 Thank you for your letter of 2 December about Rolls-Royce's request that Lord Carrington should support their efforts to persuade Saudia to buy the RB211 for their Airbuses by sending a message to Prince Sultan.

2 My Secretary of State recognises the dilemma which the company's request presents. The order is of considerable importance to Rolls-Royce, not only because of its size, but also because it provides probably the last opportunity to launch the RB211 on the Airbus and preserves the Rolls-Royce monopoly position on Saudia aircraft. On the other hand, if Rolls-Royce win the contract, there could be a significant problem arising out of the Airbus Industrie financing system, which could mean that British Aerospace have to pay a substantial subsidy to AI for the purchase of Rolls-Royce engines. British Aerospace have made it clear that they could not accept the burden and have said that they would expect HMG to assume it. Ministers recognised the difficulties of resolving this problem when they decided to authorise Rolls-Royce to attempt to secure the Saudia order and accepted the risk that, even if Rolls-Royce secure the contract, the costs might be too great.

3 In substance, the position remains unchanged. French and German officials have refused to enter into negotiations about financing in advance of a clear indication that Rolls-Royce have been selected. Equally, my Secretary of State hopes that some changes in the Airbus Industries system of financing would be possible which would reduce the costs to acceptable levels. Ministers will not be able to make a judgement, however, until Saudia have reached a decision.

/4 ...



4 My Secretary of State's view is that it would be helpful if Lord Carrington were to send a message of support to Prince Sultan. If Ministers showed a reluctance to lend Rolls-Royce moral support and the Saudia contract were lost, Rolls-Royce might attribute their failure to a lack of ministerial support. Absence of support might also encourage our French and German partners in their suspicions about our commitment to Airbus. Moreover, if the AI financing system presents an insuperable obstacle to implementing a Saudia decision to choose the RB211, it should be possible to demonstrate that it is not entirely the fault of the UK and so to minimise the potential damage to Anglo/Saudi relations and to Lord Carrington's personal position with Saudi Ministers. My Secretary of State hopes, therefore, that Lord Carrington would be prepared to give support to the Rolls-Royce campaign, which we understand reaches its climax this weekend.

5 I am copying this letter to Michael Alexander and to John Wiggins.

Yours ever

lar

I K C ELLISON
Private Secretary

-4 DEC 1950

4 5 6 7 8
1 2 3
U S N I