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10 DOWNING STREET

*From the Principal Private Secretary*

28 January 1980

ROLLS ROYCE: COLLABORATIVE AGREEMENT WITH JAPAN

When your Secretary of State called upon the Prime Minister this morning to discuss Sir Kenneth Berrill's minute of 23 January 1980 about the proposed agreement between Rolls Royce and the Japanese on the RB 432 engine, he said that the decision which the Government was being asked to take now was a very limited one. All that was sought was authority for Rolls Royce to bring into force the initial stage of the agreement. There was no commitment whatever on the Government's part to the full launch phase of the project. What Ministers were being asked to agree to was as cautious a toe in the water as was possible.

The Prime Minister said even so, she was worried about the vagueness of both the cost and time estimates for the initial launch phase. Sir Kenneth Berrill's minute said that the cost would be "around £5m-£10m" and that the phase would last "initially until the end of 1980, though it could well be extended into late 1981".

Sir Keith Joseph said that it was not possible to be precise at present about how long the initial launch phase would last partly because it turned on how long Boeing and Fokker took to reach their own conclusions about the size of the market for the engine. He would consider, in the light of the Prime Minister's comments, whether the draft letter for him to send to the Chairman of Rolls Royce could be strengthened to make it even clearer that the Government was in no way committed to the full launch phase of the project.

The Prime Minister said that on this basis she was ready to agree that Rolls Royce should be authorised to go ahead with the initial phase agreement.

I am sending copies of this letter to the Private Secretaries to the other members of MISC.22 and to David Wright.

C. A. WHITMORE

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