



Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

ROLLS ROYCE'S LONG TERM STRATEGY

I have seen Keith Joseph's minute of 6 August and the report by officials on the Rolls Royce Corporate plan. I am concerned at the Company's reluctance to consider alternatives in the civil engine business, particularly since we are being invited to endorse the strategy without at this stage being given a firm estimate of the cost. I agree therefore with the recommendation of officials that acceptance of the strategy must be conditional upon demonstration in the operating plan due in the autumn that there is a realistic prospect of hitting the Corporate Plan target of break-even by 1983. The assumptions underlying the operating plan will require careful scrutiny and the Company must be left in no doubt that we will require a reassessment of the strategy if the targets cannot be met.

2. I agree that our previous warning on the R500 should be repeated and that the Company should be pressed to explore the possibility of linking with Pratt and Whitney on any new intermediate size engine. I am content that Keith Joseph and officials should pursue the possibilities of disposing of peripheral activities.

3. I am copying this letter to members of MISC 22, Robin Ibbs and Robert Armstrong.

(G.H.)

8 August 1980

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