



The Foreign Secretary decided
to write.

Mr. P... 4/11

Foreign and Commonwealth Office

London SW1A 2AH

2 December 1980

I have asked P...
to make a copy of
his to the Treasury.

Prime Minister
To be aware of the problem.

Dear Sir,

Rolls Royce and Airbus

Lord Carrington has been faced with a somewhat awkward request from RR, at board level, that he should send a message of support to the appropriate Saudi Minister (Prince Sultan) backing RR's efforts to have the RB 211 engine chosen for the Airbuses that the Saudis are said to be on the point of ordering. Your Secretary of State minuted to the Prime Minister on the subject on 30 September.

As you know the value of the order would be substantial: £100 million initially with the prospect of a further £150 million for follow-up orders with Saudia. Also at stake is RR's position as sole supplier of engines to Saudi Arabian Airlines hitherto. Furthermore this may be RR's last chance of launching their engines on the Airbus with significant prospects of further business in the Middle East and elsewhere.

For all these reasons Lord Carrington is disposed to do what he can to help Rolls Royce. A personal message to Prince Sultan, whom he knows well, might help to tilt the balance in RR's favour although we understand that Pratt and Whitney are currently making the running with a very attractive financial package.

The complication arises from the negotiations with our Airbus Industrie partners on the production financing arrangements which would be needed if Rolls won the order, and which are explained in your Secretary of State's minute. Lord Carrington understands why this tiresome problem cannot be resolved until the contract is secured since it would be impossible to force our partners to negotiate on a hypothetical case. But he is concerned at the risk that HMG might find the conditions unacceptable at the end of these further negotiations and RR would therefore be prevented from carrying out the contract. The consequences for Anglo/Saudi relations and his own standing with Saudi Ministers if he had sent a personal message would obviously be unfortunate.

It is clearly not reasonable to ask that Ministers

/should



should give a blanket assurance that if the AI negotiations did not go our way, HMG would cover the additional costs of fulfilling the contract. But before taking a final decision Lord Carrington would be grateful for your Secretary of State's urgent comments on whether the risks of him acting as proposed are acceptable. I should be grateful for a reply by close of play on 3 December.

I am copying this to Michael Alexander, who may also wish to comment.

For ear

GGH

(G G H Walden)
Private Secretary

I K C Ellison Esq
Department of Industry



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From the Secretary of State

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Ian Ellison Esq
Private Secretary to the
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

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17/10

10 October 1980

Dear Ian

ROLLS ROYCE AND AIRBUS

My Secretary of State does not wish to reopen the question of the letter to Lord McFadzean for which the Prime Minister's approval was given in Tim Lankester's letter of 6 October. He has, however, asked me to pass on a comment which might be of general relevance to similar cases in the future.

Saudi opinion of British industry in general will hardly be enhanced by Rolls Royce - a seller - approaching a potential major buyer and laying down the circumstances and conditions which will determine whether a sale might take place. He would have thought it preferable to have decided whether in the last resort the Government would be prepared to underwrite the costs so that Rolls Royce could press their case without any strings; it would have then been up to the Saudis to negotiate with Airbus Industrie and for the Government and British Aerospace to extract the best deal possible from the airbus partners.

I am copying this letter to Tim Lankester (Number 10) and to Robin Ibbs.

Yours sincerely,

Stuart Hampson

S HAMPSON
Private Secretary

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