



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 May 1981

The Rt. Hon. Sir Keith Joseph, MP.,
Secretary of State for Industry

Dr Kim

ROLLS ROYCE: RJ500

I have seen your minute of 8 May to the Prime Minister, and the subsequent minute from Mr. Ibbs of the CPRS which confirms that your proposals reflect discussion among all the Departments concerned. I too am content for you to write to Lord McFadzean in the terms you propose. I place particular emphasis upon Rolls Royce containing additional expenditure on the RJ500 within their existing cash limit. I note that in his letter to you Lord McFadzean said that he would aim to do so, and I am sure that we should encourage him in this aim.

I have also now seen Jim Prior's minute of 13 May questioning whether you are right to plan to tell Lord McFadzean that it is unlikely we could approve full launch unless there was substantial progress towards involving one of the two major US aeroengine manufacturers. I strongly support your plan. All the evidence suggests that although there will probably be a market for the RJ500 type of engine, this market could not support three competitors on a viable basis; and all the RB211 experience suggests that Rolls Royce as the smallest and weakest of the three would be likely to come off worst. Hence the importance of their doing a deal with a major American manufacturer and eliminating one of the potential competing engines. Like Mr. Ibbs, I think that we have to put this squarely to Lord McFadzean: to do otherwise would only encourage false hopes that we would willingly contemplate substantial investment in a programme, which, as you have pointed out, would be extremely risky without some US, as well as Japanese, involvement.

I am copying this letter to the Prime Minister, other members of MISC 22, Sir Robert Armstrong, and Mr. Ibbs.

G
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Secretary of State for Industry

19 May 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

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Dear Geoffrey,

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19/5

ROLLS-ROYCE

Thank you for your letter of 14 May about the relationship between the RJ500 and the issue of wider collaboration between RR and Pratt and Whitney. I ~~certainly~~ recognise the link between the RJ500 and the discussions about a wider association between RR and one of its US competitors. I shall certainly be drawing this point to Frank McFadzean's attention when I convey to him the Government's response on the RJ500.

Copies of this letter go to the Prime Minister, Sir Robert Armstrong and Robin Ibbs.

Ever,

Kevin

[Signature]

19 MAY 1981



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