

CONFIDENTIAL *Sub Pol* *SS*



cc FCO
DN
DOT
DM
MOD
HMT
CO
CPRS

Mr Duguid

CF file
10 DOWNING STREET

From the Private Secretary

15 May 1981

Dear Sir,

Rolls Royce: RJ500

The Prime Minister has now considered your Secretary of State's minute of 8 May. She has also seen the Secretary of State for Employment's minute of 13 May, the Chancellor of the Exchequer's letter of 14 May and Robin Ibbs' note of 12 May.

The Prime Minister has noted that the Secretary of State for Employment is unhappy with the suggestion that approval of the full launch of the RJ500 will not be given unless Rolls Royce are able to demonstrate that there will be participation by one of the major US companies. However, she is not persuaded by his argument; on the contrary, she accepts, like the Chancellor, that collaboration with one of the US companies is likely to be crucial. Accordingly, she endorses your Secretary of State's proposals.

I am sending a copy of this letter to Private Secretaries to members of MISC 22, Sir Robert Armstrong and Robin Ibbs.

Yours faithfully,

I.K.C. Ellison, Esq.,
Department of Industry.

Tim Lohr.

CONFIDENTIAL *SS*

CONFIDENTIAL

Prime Minister
Mr Ibbs and the Chancellor (Flag B)
fully endorse Sir Keir's
proposals. But Mr Prior (Flag C)
dislikes the suggestion that full
launch will not go ahead
unless RR arrange some
collaboration with the American
companies. Support Sir Keir?

Qa 05366

To: MR LANKESTER

From: J R IBBS

Yes no

Rolls-Royce: RJ500

Flag A

1. I endorse the appraisal and recommendations in the minute of 8 May from the Secretary of State for Industry. This matter has been reviewed by the official group, MISC 25, under my chairmanship. We had the opportunity to hear the views of the Company from Mr Raeburn, the Deputy Chairman, and two of his colleagues. The Secretary of State's minute is in line with the conclusions we subsequently reached. In particular we were convinced that Rolls-Royce needs to be in this sector of the market if it is to maintain a viable position in the commercial engine business overall.

12
14/5

2. Market prospects in this sector are evolving all the time. Boeing is developing its B737-300. McDonnell Douglas, possibly with Fokker, are responding with a new design. A Japanese airframe manufacturer is likely to seek involvement in one of these projects. There is the further prospect of a comparable aeroplane from Airbus Industrie, the A320. These developments suggest that the main market may be for a larger thrust engine (around 27,000 lbs) rather than for the smaller version (21,000 lbs), which forms the basis of the collaborative agreement with the Japanese. This means that the agreement as it stands is not satisfactory. The need to reconsider the position creates an opportunity to explore the broader questions of collaboration with one of the American companies, either with or without the Japanese.

3. Even though this sector appears to be expanding, its growth is likely to be at the expense of other sectors; moreover, Rolls-Royce, the weakest of the main suppliers, could not finance the project on its own. Collaboration with an American company is likely to be the only way of achieving a sufficient market share that would ensure that the project is profitable.

CONFIDENTIAL

4. The Company will be resistant to the suggestion of collaboration with an American company, largely for historical and personal reasons. If the possibility is to be properly explored it will be necessary for the Government to be absolutely firm with the Chairman.

5. I am sending copies of this minute to members of MISC 22 and to Sir Robert Armstrong.

JR/

12 May 1981

cc Mr Ingham

CONFIDENTIAL



PRIME MINISTER

ROLLS ROYCE

In his minute to you of 8 May Keith Joseph sought our agreement to the terms of his reply to Lord McFadzean's letter to him of 9 April about Rolls Royce's collaboration agreement with the Japanese. I must confess that I am deeply uneasy about the line he recommends. It seems to me that it entails letting their United States competitors decide whether Rolls Royce is to survive as a manufacturer of civil engines or not.

Of course I can claim no detailed knowledge of this highly specialised business. I do not suppose that even McFadzean would pretend to be an aero engine expert. But his considered advice as Chairman is that "it is vital that we retain the Japanese collaboration", and that this collaboration "is uniquely favourable to Rolls Royce, and we could not again negotiate anything like it if the present arrangement were frustrated. In answer to this Keith proposes to tell McFadzean that it is most improbable that the Government would agree to the launch of any version of the RJ500 unless Rolls Royce can induce one of their US competitors to participate. That is, if Pratt and Whitney and General Electric refuse to collaborate, or even simply spin out the negotiations, or if the Japanese do not want a tripartite arrangement, Rolls Royce will be condemned to run down its civil aeroengine business. If we are to withdraw from this sort of advanced technology, which must form the basis of our future prosperity, there can indeed be no hope for us.

I quite see that if the Japanese themselves favour a tripartite arrangement, and are happy to explore the possibility in conjunction with Rolls Royce, there could well be advantage in investigating it - without allowing the Americans to spin out the negotiations to our detriment. But I am strongly opposed to our putting the sort of pistol to Rolls Royce's head envisaged in paragraph 8(c) of Keith's minute.

I am copying this minute to members of MISC 22 and to Sir Robert Armstrong.

13 JP
May 1981

13 MAY 1981

121234
091609

CONFIDENTIAL

of Duguid

Confidential

Ld RJ 2



MINISTER OF STATE FOR DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

D/MIN/TT/1/4

1st June 1981

Prime Minister

You should perhaps be aware of this personal view from Ld. Tebbit.

Dear Norman

I have followed the correspondence which started with Keith Joseph's minute of 8th May to the Prime Minister about Rolls Royce's plans to collaborate with the Japanese on the RJ 500. I note that the Prime Minister has endorsed Keith's proposals, but I feel I should set out my personal views for the record.

RJ
..
1/6

While I previously supported talks between Rolls Royce and one of the two US engine manufacturers with a view to a long term association, the idea that the current agreement with the Japanese should form the basis for further discussions with the American firms does not seem logical.

I believe this could largely negate the beneficial effects of collaboration with the Japanese. I understand that it is not the intention to encourage Rolls Royce to participate both with the Japanese and the US for the immediate programme, but there is a real risk of giving the impression to the Japanese that our confidence in Rolls Royce is low.

If, as a result of this, the Japanese withdraw from the arrangement, Rolls Royce would have to negotiate with the American companies from a position of weakness.

/ Conversely ...

Norman Tebbit Esq., MP

Conversely, a successful development of the Japanese partnership would put Rolls Royce in a strong position, and if it was still considered correct to press for partnership with a US firm, Rolls Royce would then be able to negotiate on a better basis.

I therefore believe that Rolls Royce should be encouraged to pursue the proposed association with the Japanese quite separately from further discussions with the Americans. I believe that the trouble with Rolls is still commercial management rather than technical ability. We cannot afford to lose the technology.

Copies of this letter go to members of MISC 22, Sir Robert Armstrong and Robin Ibbs.

yours truly
Tom

Lord Trenchard

1861 JUN 1981

1861 JUN 1981

1861 JUN 1981